AUDITOR GENERAL
*Alberta*

# Report of the Auditor General of Alberta

November 2011

ISSN 1703-7166

AUDITOR GENERAL
*Alberta*

Mr. Len Mitzel, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *Report of the Auditor General of Alberta—November 2011* to Members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act*.

[Original signed by Merwan N. Saher]
Merwan N. Saher, CA
Auditor General

Edmonton, Alberta
November 15, 2011

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AUDITOR GENERAL
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# Introduction

Report of the Auditor General of Alberta—November 2011

# Message from the Auditor General

In our last report, dated April 2011, I emphasized the Office's commitment to following up on the government's implementation of prior recommendations. Working within our budget, and ensuring we meet our statutory obligation to perform all of the financial audits listed at page 51, this commitment means there are no new major systems audits in this report. There are, however, new recommendations that are a value added by-product of our financial statement auditing.

Our focus is on ensuring that government responds to outstanding recommendations. We can then tell Albertans that based on evidence, change has taken hold. A follow-up audit is the payback on the investment of audit dollars in producing a recommendation. I am pleased with the progress to date in terms of the number of follow-ups done, but more importantly in the results. Our overall assessment is that managers in the Government of Alberta take seriously their responsibility to implement accepted recommendations.

In October 2010 we reported a total of 308 outstanding recommendations. In April 2011 we reduced this number to 291. I can now report that we have further reduced this number to 243 (which includes the 18 recommendations made in this report). Our goal over the next two years is to further decrease the number of outstanding recommendations to a more manageable number (approximately 150), and then return to a better balance of both new and follow-up audits.

Of particular note in this report are the following:

## Environment

**Climate Change and Emissions Management Fund—Use of Offsets for Compliance with Regulations (pages 15–24)**

In the business of managing greenhouse gas emissions, an offset represents emissions reduced or prevented as a result of actions beyond those required by legislation. In October 2009, the Office recommended the Department of Environment strengthen its offset protocols to have sufficient assurance the offsets used for compliance with regulations are valid. This year's audit of the Climate Change and Emissions Management Fund, which we have classified as a follow-up systems audit, showed the progress to date is unsatisfactory. The Office is repeating its recommendation that the Department provide clear guidance to facilities, verifiers, offset project developers and offset protocol developers to ensure they consistently follow the requirements in place to achieve Alberta's emissions reduction targets. Without this, offsets used for compliance by large emitters may not be valid and Alberta's emission reduction targets may not be achieved.

## Health and Wellness/Seniors and Community Supports

**Seniors Care in Long-Term Care Facilities (pages 33–40)**

We have given Alberta Health Service's monitoring of standards in long-term care facilities a satisfactory progress rating. AHS needs to complete development of its province-wide monitoring program. With planning for future needs in long-term care facilities being included in broad planning initiatives for continuing care, we will have to consider an audit of the systems to ensure that seniors' needs in all settings are being adequately planned for and met.

## Advanced Education and Technology

**Alberta Innovates—Technology Futures**

**Improve Project Management/Governance/Controls for New Information Systems (pages 65–66)**

Our audit focused on the Corporate Information System being developed by Alberta Innovates—Technology Futures (mainly the former Alberta Research Council) to improve its business efficiencies. The finding from our work is a lack of formal governance processes for the CIS project which could result in the corporation implementing an inadequate system or incurring significant financial losses. We recommend a comprehensive approach to ensure adequate policies, processes and controls are in place to successfully execute and monitor the CIS project.

## Finance

**ATB Financial**

**New Banking System—Internal Controls (pages 101–102)**

We audited the processes ATB Financial followed to ensure internal controls within its new banking system were adequate before it was implemented. Management believes but cannot yet demonstrate with evidence that key controls in the new banking system operate as intended. Our recommendation is that ATB Financial confirm that key controls, as identified in its risk and control matrices, are implemented and operating effectively. Without this, management and other key decision makers could be inappropriately relying on controls that are not working effectively to manage risk.

In closing, I want to acknowledge valuable insights on matters of concern to Albertans provided by members of the Legislative Assembly's Standing Committee on Public Accounts and the individuals who serve on the Provincial Audit Committee. To the management and staff of the organizations that we audit, thank you for your cooperation and professionalism in allowing us to provide relevant, reliable and reasonable cost audits for the benefit of Albertans across our province. Finally, I would like to acknowledge the hard work and dedication of the staff of the Office. They are committed to adding value through expert auditing.

[Original signed by Merwan N. Saher]
Merwan N. Saher, CA
Auditor General

November 15, 2011

# Recommendation Highlights

Government restructuring, announced on October 12, 2011, resulted in changed responsibilities and new ministries. We report on the government ministries as they were before the restructuring. However, we have made our recommendations to the ministries that will report to the Public Accounts Committee on their progress in implementing them.

This report contains 17 new recommendations and one repeated recommendation, all listed starting at page 7. The repeated recommendation was made because in our judgement, taking into account the complexity of the matter and the action planned by management, progress was insufficient.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

We believe all of the recommendations in this report require a formal public response from the government. In instances where a recommendation has been made to a board-governed organization, we expect the organization to implement the recommendation and report back to its respective government ministry as part of proper oversight of the organization. By implementing our recommendations, the government will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or the governance and ethics with which government operations are managed. The most significant recommendations are also categorized as "key."

## Reporting the status of recommendations

We follow up all recommendations and report their status in our public reports. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation, and assist with the timing of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work. We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- **Implemented**—we explain how the government implemented the recommendation.
- **Satisfactory progress**—we may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.
- **Repeated**—we explain why we are repeating the recommendation and what the government must still do to implement it.
- **Changed circumstances**—if the recommendation is no longer valid, we explain why and remove the recommendation from our outstanding recommendation list.

## Outstanding recommendations

We have a chapter called Outstanding Recommendations—see page 141. It provides a complete list of the recommendations that are not yet implemented. Although management may consider some of these recommendations to have been implemented, we do not remove recommendations from this list until we have completed follow-up audit work to confirm implementation.

# November 2011 Recommendations

🔑—Key recommendation

## Major Systems Auditing—Follow-up Audits

### Environment and Water

#### Climate Change and Emissions Management Fund—Use of Offsets

No. 1
Page 17
🔑

**Department—Clarify guidance—Recommendation repeated**

We again recommend the Department of Environment and Water clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow the requirements in place to achieve the Alberta government's emissions reduction targets.

**Implications and risks if recommendation not implemented**

Without clear guidance and its consistent application by all participants in the system, the Alberta government may not achieve its emission reduction targets.

No. 2
Page 23

**Department—Ensure all protocols meet new standard, and improve transparency—Recommendation**

We recommend the Department of Environment and Water implement processes to ensure that all approved protocols adhere to its protocol development standard.

We also recommend the Department of Environment and Water improve its transparency by making key information about how protocols are developed publicly available.

**Implications and risks if recommendation not implemented**

- Without ensuring that all protocols conform to the same standards for protocol development, the Department cannot ensure that it provides a level playing field for offset project developers.
- Without a clear and consistent approach to its protocols, the Department might be allowing carbon offset credits for activities that represent common practice in a sector.
- Without access to the relevant information, the public, users and offset project developers cannot know or understand the reasons behind the protocols the Department has approved.

## Financial Statement, Performance Measures and Control Systems Auditing

### Ministry Annual Reports

No. 3
Page 57

**Department—Improving processes to select performance measures—Recommendation**

We recommend the Department of Treasury Board and Enterprise work with other ministries to improve processes for selecting measures for public reporting, including the sample to be reviewed by the Auditor General.

**Implications and risks if recommendation not implemented**

Without well-established processes for selecting performance measures, the measures selected and reported may not provide adequate information to assess performance.

## Advanced Education and Technology

No. 4
Page 65

**Alberta Innovates—Technology Futures—Improve project management governance and controls for new information systems—Recommendation**

We recommend that Alberta Innovates—Technology Futures improve its governance practices for the Corporate Information Systems project, by:

- establishing formal project management policies, processes, standards and controls for the Corporate Information System project
- establishing a project steering committee comprised of key stakeholders
- documenting and communicating the roles and responsibilities for all stakeholders, including the steering committee, board sub-committee and project sponsors
- updating the business case to set out the project's objectives that enables the steering committee to monitor and measure the project's progress
- formally assessing the impact of the project on other strategic business initiatives and periodically updating the assessment

**Implications and risks if recommendation not implemented**

The role of project governance is to provide a decision-making framework that is logical, robust and repeatable to govern an organization's capital investment. A lack of project governance could result in the Corporation implementing an inadequate corporate information system or incurring significant financial losses.

No. 5
Page 67

**University of Calgary—Enterprise risk management—Recommendation**

We recommend that the University of Calgary adopt an integrated risk management approach to identify and manage the risks that impact the University as a whole.

**Implications and risks if recommendation not implemented**

The absence of an integrated approach to manage risks reduces the University's ability to manage risks effectively.

No. 6
Page 67

**University of Calgary—Improve IT change management controls—Recommendation**

We recommend that the University of Calgary implement:

- an organization-wide IT change management policy with supporting procedures and standards
- processes to ensure the policy is consistently followed throughout the organization

**Implications and risks if recommendation not implemented**

Unauthorized or undetected changes may result in the loss or unauthorized use of data or in applications not being available when needed.

No. 7
Page 68

**University of Calgary—Secure access to its PeopleSoft system—Recommendation**

We recommend that the University of Calgary ensure access to its PeopleSoft system is secured and meets the University's security standards.

**Implications and risks if recommendation not implemented**

Inadequate access controls may result in unauthorized access to or use of important information in the PeopleSoft system.

## Agriculture and Rural Development

No. 8
Page 74

**Agriculture Financial Services Corporation—Lending controls—Recommendation**

We recommend that the Agriculture Financial Services Corporation ensure its key lending controls operate as designed.

**Implications and risks if recommendation not implemented**

Failure to ensure consistent compliance with key lending controls may put AFSC at undue risk. Loans that do not follow AFSC's loan policies may be inappropriately disbursed.

No. 9
Page 75

**Agriculture Financial Services Corporation—AgriStability accrual process—Recommendation**

We recommend that the Agriculture Financial Services Corporation ensure its procedures to develop the AgriStability accrual are properly documented and reviewed.

**Implications and risks if recommendation not implemented**

The absence of proper procedures to review and document the accrual estimation process and key inputs and factors used in the process increases the risk of material misstatement of the accrual at year-end.

No. 10
Page 78

**Alberta Livestock and Meat Agency Ltd.—Enterprise risk management—Recommendation**

We recommend that the Alberta Livestock and Meat Agency Ltd. improve its risk management processes.

**Implications and risks if recommendation not implemented**

Without a formal process to identify and manage risk, ALMA may not mitigate all significant risks and may focus resources on less significant issues.

No. 11
Page 79

**Alberta Livestock and Meat Agency Ltd.—Compliance with contracting procedures—Recommendation**

We recommend that the Alberta Livestock and Meat Agency Ltd. ensure compliance with its contracting procedures.

**Implications and risks if recommendation not implemented**

When service contracts are signed after work begins, there is an increased risk that ALMA may be charged for services not agreed on.

## Education

No. 12
Page 81

**Department—Consolidation processes—Recommendation**

We recommend that the Department of Education improve its processes to consolidate the financial information of school jurisdictions into the Ministry of Education's financial statements.

**Implications and risks if recommendation not implemented**

In the absence of effective consolidation processes, there is an increased risk of errors not being detected and corrected, which may lead to material error in the Ministry's financial statements. The Department may also incur excessive time and costs in preparing the Ministry's consolidated statements.

## Energy

No. 13
Page 89

**Department—Improving processes to recognize royalty revenue estimates in the financial statements—Recommendation**

We recommend that the Department of Energy improve its controls for:

- using consistent methods to calculate bitumen royalty estimates
- conducting timely reviews of the calculations used to estimate natural gas royalty revenue

**Implications and risks if recommendation not implemented**

Because estimates form a significant component of the Department's calculation of royalty revenues in its financial statements, if assumptions and calculation methods are inconsistent, and review of information supporting the estimates is not timely, the risk of financial misstatement is increased.

## Finance

No. 14
Page 97

**Alberta Investment Management Corporation—Investment risk IT system—Recommendation**

We recommend that the Alberta Investment Management Corporation improve its controls over the investment risk IT system.

**Implications and risks if recommendation not implemented**

If AIMCo does not have processes in place to make sure its investment risk system is accurate, AIMCo and its clients might base their investment decisions on or prepare information used in financial statement disclosures using incomplete or inaccurate information.

No. 15
Page 99

**Alberta Investment Management Corporation—AIMCo's revenue from cost recoveries—Recommendation**

We recommend that the Alberta Investment Management Corporation reconcile its revenue from cost recoveries reported in its financial statements to the total fees it recovers from its clients and investment pools.

**Implications and risks if recommendation not implemented**

Without a good process to record revenue from cost recovery, AIMCo may be over- or under-charging its clients for investment services.

No. 16
Page 102

**ATB Financial—New banking system internal controls—Recommendation**

We recommend that ATB Financial confirm that the key controls in the new banking system, as identified in its risk and control matrices, are implemented and operate effectively.

**Implications and risks if recommendation not implemented**

Management and the Audit Committee are relying on key controls that have not yet been confirmed to be implemented and operating effectively.

## Municipal Affairs

No. 17
Page 120

**Alberta Social Housing Corporation—Social housing contracting policy—Recommendation**

We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

**Implications and risks if recommendation not implemented**

Without a contracting policy and processes for capital additions to the Corporation's social housing portfolio, the Corporation may not ensure the projects are meeting its requirements, or that it is getting good value for money.

No. 18
Page 124

**Department—Disaster recovery estimation methodology—Recommendation**

We recommend that the Department of Municipal Affairs clarify its method for initially estimating disaster recovery expenses.

**Implications and risks if recommendation not implemented**

If the Department overestimates the costs of recovering from a disaster, there is a risk that the government would set aside funds that could be used elsewhere.

## November 2011 Recommendations

AUDITOR GENERAL
*Alberta*

# Major Systems Auditing—Follow-up Audits

Report of the Auditor General of Alberta—November 2011

# Climate Change and Emissions Management Fund—Use of Offsets—Follow-up Audit

## Summary

The *Specified Gas Emitters Regulation (SGE Regulation)*[1] establishes emission limits for facilities that emit 100,000 tonnes or more of carbon dioxide equivalent emissions annually. Collectively, these facilities account for approximately half of the greenhouse gases in Alberta. Facilities that have annual emissions intensity higher than their specified limits can achieve compliance by paying into the Climate Change and Emissions Management Fund. Funds paid into the Fund may be used only for purposes related to reducing emissions of specified gases or improving Alberta's ability to adapt to climate change. The Fund and the Department of Environment are part of the Ministry of Environment.

### What we examined

In 2008, we audited systems to develop *Alberta's Climate Change Strategy* and reported our findings and recommendations in our *October 2008 Report* (nos. 9–11—pages 97–104). In 2009, we audited systems the Department relies on to ensure that facilities comply with the requirements of the *SGE Regulation*. We reported our findings and recommendations in our *October 2009 Report* (nos. 3–5—pages 40–52). We plan to follow up the recommendations in 2011 and 2012.

During our audit of the financial statements of the Fund for the year ended March 31, 2011, we examined the following documents:

- verification reports and supporting documents provided by three facilities that have tailings ponds emissions
- verification reports and a quantification protocol issued in February 2009 through tillage offset projects submitted for compliance
- quantification protocols for anaerobic treatment of wastewater projects, nitrous oxide abatement from nitric acid production, and biofuel production and usage, and reports for projects submitted under three new offset protocols established in 2009
- technical guidance documents revised by the Department in 2011 for developers of offset protocols and offset projects

### Why this is important to Albertans

The government used the *SGE Regulation* to establish its long-term emission reduction targets. If the regulated facilities do not deliver expected emission reductions, the government may have to obtain more reductions in other areas than originally planned for, or amend its targets.

### What we found

The Department's guidance for the facilities, verifiers, offset project developers and offset protocol developers is not clear. The Department's processes for developing offset protocols need improvement.

The Department of Environment and Water should:

- implement processes to ensure that approved offset system protocols meet its protocol development standard—see page 17
- improve transparency of its protocol development process—see page 23

We repeat our recommendation that the Department of Environment and Water clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers—see page 17.

1 Alberta Regulation 139/2007

## Background

### Alberta Climate Change Policy

Alberta released its first climate change plan—*Albertans & Climate Change: Taking Action*—in 2002, and updated it with *Alberta's Climate Change Strategy* in 2008. In its plan and strategy, and in the *Climate Change and Emissions Management Act*,[2] the government committed to the following targets:

- emissions intensity[3]—reduce to 20% below 1990 levels by 2010, and to 50% by 2020
- absolute emissions[4]—reduce to 14% below 2005 levels by 2050

### Specified Gas Emitters Regulation

The *SGE Regulation* seeks to limit the intensity of emissions. It specifies a level of intensity for any facility that emits 100,000 tonnes or more of carbon dioxide equivalent emissions[5] annually.

If a facility has actual emissions intensity that is higher than its emissions intensity limit, its owners must do one of the following:

- pay into the Fund
- use emission performance credits—When regulated facilities achieve actual emissions intensity that is less than their emissions intensity limit, they create emission performance credits. A facility may use credits it created in prior years or use credits that other regulated facilities created.
- purchase offsets—When non-regulated facilities or sectors engage in activities that reduce emissions (for example, wind energy projects) or enhance emissions removal from the atmosphere (for example, reduced-till or no-till agricultural projects), they create offsets. Regulated facilities may purchase offsets that are listed at the Alberta Emissions Offset Registry.

### Emissions Offset Registry

Facilities and sectors that are not subject to the *SGE Regulation* may register offset credits through the Registry. To register offset credits, they must be able to prove they have reduced or removed emissions, using protocols approved by the Department.

Once registered, offset credits can be bought and sold in the Alberta offset market. Offset credits remain active in the Registry until a regulated facility submits them to the Department for compliance. Offset credits can also be sold outside the Alberta market.

Eligible offsets must meet *SGE Regulation* criteria. Offsets must:

- result from actions taken on or after January 1, 2002
- be real, demonstrable and quantifiable
- not be the result of an action required by law
- have clearly established ownership
- be counted only once for compliance purposes
- be verified by a qualified third party (for example a professional engineer or a chartered accountant) to a limited level of assurance
- occur in Alberta

### Results measurement and verification

The Department provides guidance for facilities on the types of emissions they must report and the methods they must use to measure those emissions. Facilities that are subject to the *SGE Regulation* must provide a baseline report[6] to the Department. Each year, facilities must also provide a compliance report[7] indicating how they met their emissions intensity limits.

The Department requires all facilities to have their compliance reports independently verified. Companies that have offset projects must also

2 RSA, C-16.7, 2003

3 Emissions intensity targets specify emissions relative to production or economic output such as gross domestic product. Alberta's target is to reduce emissions in the province relative to Alberta's gross domestic product.

4 Absolute emissions targets specify emissions relative to a historical baseline.

5 The amount of carbon dioxide emission that would have the same warming influence on the global climate system over a given time horizon as an emitted amount of greenhouse gas. The equivalent carbon dioxide emission is obtained by multiplying the emission of a greenhouse gas by its global warming potential for a given time horizon, generally 100 years.

6 A facility's baseline emissions intensity is an emissions intensity that represents the facility's normal operating conditions.

7 Compliance report compares a facility's annual emission intensity against its emissions intensity limit.

have the offsets independently verified. Department staff review facility reports and analyze trends on the emissions and production of each facility. The Department also hires verifiers to reverify reports at a sample of facilities and offset projects.

The Department's technical guidance documents identify the responsibilities of facilities, verifiers and offset project proponents. The Department approves protocols that establish what project proponents must do to quantify the offsets from a project.

This complex audit involved developing an understanding of subject areas such as tailings ponds emissions, tillage offsets, discount factor and uncertainty calculations, protocol adoption threshold, potential for overestimation of offset credits, flexibility mechanisms, offset verifier assessment of compliance and assurance conclusions.

## Findings and recommendations

### Department's guidance—recommendation repeated

#### Background

In our *October 2009 Report* (no. 4—page 46), we recommended the Department strengthen its offset protocols to have sufficient assurance the offsets used for compliance are valid. In our 2010 management letter, we recommended the Department collect sufficient evidence for tillage offsets submitted for the 2009 compliance.

During the audit of the financial statements of the Fund for the year ended March 31, 2011, we found that the Department did not instruct its verifiers on the specific evidence to obtain for the 2009 tillage offsets. For this reason, we consider the Department's progress in implementing the recommendations unsatisfactory. We consolidate the previous recommendations into one broader recommendation below. We consider this to be a repeated recommendation.

#### Recommendation: clarify guidance

**1 RECOMMENDATION REPEATED**

We again recommend the Department of Environment and Water clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow the requirements in place to achieve the Alberta government's emissions reduction targets.

This recommendation relates to findings on pages 18 to 24 of this report. Specific background precedes each area of findings.

#### Criteria: the standards for our audit

The Department should clearly communicate its requirements for facilities, verifiers,[8] offset project developers[9] and offset protocol developers.[10] The Department should ensure these stakeholders meet regulatory requirements.

### Tailings ponds emissions

#### Background

Fugitive emissions include leaks from pressurized equipment and various other unintended releases of gases. The gases released by tailings ponds are fugitive emissions.

To meet the requirements of the *SGE Regulation*, regulated facilities that have tailings ponds must quantify their annual tailings ponds emissions. Three facilities in Alberta have tailings ponds; the conditions of the ponds are different at each facility. The facilities base their estimates of fugitive emissions on various analyses they have completed since 2000. All three facilities use the

8 Independent third parties hired by facilities, offset project developers or the Department to check reported emission information.

9 Non-regulated companies or individuals that develop offset projects; activities or technologies that reduce or remove emissions.

10 Companies or individuals that develop protocols. Offset protocols outline methodologies the offset project developers must follow to quantify the emission reductions from offset projects.

U.S. Environmental Protection Agency's[11] flux chamber testing protocol to test for emissions.

## Our audit findings

**Key findings**

- Measurement method applied inconsistently
- Reported emissions could not be reverified

### Measurement method is not applied consistently

The Department does not tell the facilities how to measure or estimate emissions. Instead, the Department recommends that facilities use one of four measurement and five calculation methods indicated in the guidance documents it provides.

There is currently no standard method for measuring fugitive emissions from tailings ponds. All facilities with tailings ponds emissions use the flux chamber method,[12] which is a type of periodic, direct measurement the Department allows. However, the three facilities do not apply this method in the same way. Each facility collects data at different frequencies and uses different sampling requirements.

One facility used data from 1998 and 2008 studies to estimate its 2009 fugitive emissions from tailings ponds. Another estimated its 2009 emissions based on a 2001 study conducted on a tailings pond that has since been reclaimed. Additionally, this facility did not include carbon dioxide emissions in its estimate. At the two facilities that included carbon dioxide emissions in their 2009 estimates, those emissions represented roughly 90% of all fugitive emissions associated with the tailings ponds.

### Flux chamber method is inaccurate for tailings ponds emissions

The flux chamber method does not prescribe specific sampling criteria based on the surface area of tailings ponds. This variation in sampling allows for significant variability in the reported emission results. At this time, however, it is the most accurate method available for estimating fugitive emissions from tailings ponds.

### Flux chamber results cannot be reverified

The Department hired a verifier to reverify one facility's 2009 compliance report and another facility's revised baseline data. In both cases, the verifier reported the fugitive emissions from tailings ponds could not be verified, in part because of the uncertainties associated with using the flux chamber method.

The Department told us that a study scheduled to begin in the summer of 2011 will support the development of a standard tailings pond quantification method for industry. The study will assess the feasibility of various measurement methods for fugitive emissions from tailings ponds.

## Tillage offsets

### Background

The Department's protocol for tillage offsets is the one that facilities use most in implementing the *SGE Regulation*. Regulated facilities used tillage offset credits worth approximately $24 million in 2009. For the 2009 compliance period, 42% of all offset credits and 57% of all projects used for compliance were created under this protocol.

The Department developed the tillage protocol for quantifying offsets from no-till and reduced-till cultivation practices. Tilling[13] is standard farming practice in Alberta. The protocol provides an incentive to farmers to reduce the frequency and intensity of disturbances they cause during crop management cycles and fallow periods.

11 United States Environmental Protection Agency, *Measurement of Gaseous Emission Rates from Land Surfaces Using an Emission Isolation Flux Chamber*, December 1985.

12 The U.S. Environmental Protection Agency's flux chamber testing protocol to test for emissions. The flux chamber method gathers an air sample from a fixed area in a chamber or hood for analysis.

13 Tilling is the act of disturbing the soil in order to place seeds and fertilizer, and to aerate it. Tilling results in a more rapid breakdown of organic matter in the soil, and a loss of carbon dioxide from the soil into the atmosphere. This, in addition to the emissions from the farm equipment itself, increases carbon dioxide levels in the atmosphere. Reduced- and no-till farming has potential to remove carbon dioxide from the atmosphere through storage of organic matter in the soil.

The Alberta protocol defines no-till as the use of openers and other land-disturbing implements for only one pass with a medium-disturbance opener (up to 46%) or two passes with a low-disturbance opener (up to 38%) within any crop cycle. Also, the Alberta protocol allows the land user to use discretionary tilling of up to 10% of the land on a site.

The tillage protocol defines reduced-till farming as greater disturbance of the soil during seeding season than no-till, as well as up to one other cultivation in the fall or spring.

Alberta's tillage protocol[14] identifies "farm records and an affirmation from the project developer" as the source of evidence for no-till and reduced-till practices. The protocol does not specify which farm records farmers must have and verifiers must verify to substantiate reduced-till or no-till practices. For this reason, we previously recommended the Department strengthen the offset protocol to have sufficient assurance that offsets used for compliance are valid.

In our 2010 management letter, we recommended the Department collect sufficient evidence to support claims for tillage offsets. Our current findings provide further evidence the processes associated with tillage offsets should be strengthened. The Department stated its revised tillage protocol would be available before the end of 2011.

14 *Specified Gas Emitters Regulation, Quantification Protocol for Tillage System Management*, February 2009

## Our audit findings

**Key finding**

Insufficient guidance on how to verify tillage offsets

### The Department did not instruct its verifiers on the specific evidence to obtain for tillage practices

In 2009, the Department received offset submissions from six tillage aggregators.[15] At the conclusion of our audit, the Department had assessed and approved offsets for a total of 1.3 million tonnes from five of these aggregators. The Department hired verifiers to verify all five aggregators as part of its current and prior-year assessments. At the time of our audit, the Department was still assessing offsets from the sixth aggregator.

Notwithstanding that the Department is revising its tillage protocol, the Department did not instruct its verifiers of 2009 offsets as to what constitutes enough evidence to support the claim that no-till or reduced-till practices were used. The Department stated it will be more specific on the evidence that verifiers must seek to verify that no-till or reduced-till practices were used, beginning with the 2012 compliance period.

### The Department accepted evidence that was insufficient to corroborate tillage claims

The evidence used to validate no-till and reduced-till practice differed greatly between verifiers. For 2009 offsets, verifiers hired by the Department used varying sources of evidence to confirm farmers' assertions about their tillage practices. These included review of farm records, inspection of farm equipment, review of equipment purchase or lease records, and satellite imagery.

15 An aggregator is a person or company that works with suppliers of small volumes of offset credits established under the same protocol to pool smaller projects into a sufficiently large volume to manage verification and transaction costs. As the project developer, the aggregator is responsible for developing project documentation, engaging a third party verifier, communicating with the Alberta Emission Offset Registry, negotiating credit transactions and acting as the project contact for the Department.

Up to and including 2009, the Department has accepted these types of evidence to corroborate offset claims.

The protocol allows a certain number of passes and width of equipment openers for both no-till and reduced-till practices. None of the evidence the verifiers collected to verify individual offset claims was sufficient to prove the number of passes or the width of equipment openers used.

## Discount factor and uncertainty calculations

### Background

The Department applies discount factors to offsets, to reflect the risks associated with a future reversal of the offset.[16] Discount factors provide a conservative estimate of the total offsets from a project and decrease the risk that project developers are overstating the offsets.

Uncertainty calculations are a way of recognizing that measurement tools are not 100% accurate.[17]

### Our audit findings

**Key finding**

Guidance for offset protocols and projects not clear

In its guidance for the companies that develop offset protocols and projects, the Department identifies discount factors and uncertainty calculations as two tools offset developers should use. But the Department does not clearly distinguish between discount factors and uncertainty calculations, and when and how to use them. Nor does it clearly state that both must be considered in developing a protocol and a project.

In the documents we reviewed, we found that one project developer used a discount factor to establish "conservativeness" over the uncertainty in calculating offsets from a project. This directly contravened the Department's guidance, which states that discount factors cannot be used to quantify uncertainty.

## Protocol adoption threshold

### Background

Protocol developers must demonstrate that the activities in the protocol will reduce greenhouse gas emissions in addition to the reductions that would already occur through business as usual, common practices in the sector and regulatory requirements.

As one test for whether an activity further reduces emissions, the Department looks at the adoption level of the activity across the sector.[18] The Department requires protocols to disclose the current adoption level for a proposed offset activity.

### Our audit findings

None of the three protocols we reviewed disclosed the activity adoption level. The Department's guidance for protocol developers does not state how protocol developers should determine the adoption level for an activity when developing new protocols.

## Potential for overestimation of offset credits

### Background

Offset protocols describe methodologies the offset protocol developers must follow to quantify emission reductions from an offset project.

16 Activity-based offsets such as offsets from the adoption of reduced- or no-till farming may reverse when the activity stops (for example as a result of returning to conventional tilling).

17 Uncertainty is a parameter associated with the result of quantification that characterizes the dispersion of the values that could be reasonably attributed to the quantified amount (ISO 14064-3). For example, a meter has an accuracy of +/-2%, which is an assessment of the dispersion associated with that meter. If a facility uses multiple meters then the dispersion increases based on the accuracy of each meter. The uncertainty of a process is often calculated as the square root of the square of the accuracy of each meter.

18 With higher adoption levels, the likelihood that an activity is additional—to business as usual, common practices in the sector and regulatory requirements—decreases. In other words, if a large number of individuals or companies in the sector practise the activity, it is unlikely that significant barriers exist for the remaining members of the sector to also adopt the activity.

### Our audit findings

The Department does not require that verifiers review projects against the protocol to identify any aspects of the project not covered by the protocol that could materially affect the calculation of project offsets.

For two protocols, we observed the potential for overestimating offsets for certain projects that fully complied with the protocol. For example, the wastewater protocol requires project developers to test for sedimentation only if a project has needed regular sediment removal from the wastewater pond in the past. Sedimentation in projects that do not have this history, but have sediment in the ponds, could result in overestimating the offsets.

The Department's verifiers identified the potential for offset overestimation in two projects. The project developer verifiers, however, did not report these issues and concluded the offsets were valid. The Department stated that it would assess the risk of misstatement and the need to revise the protocols during the protocol review currently underway.

## Flexibility mechanism

### Background

Protocols may include flexibility mechanisms[19] to allow for broader application of the protocol, more rigorous quantification methods or project-specific emission sources and sinks.[20]

The Department requires that flexibility mechanisms be more rigorous than the standard protocol approach. Project plans[21] must clearly state a rationale for using flexibility mechanisms, and must provide supporting quantification methodology and assumptions.

### Our audit findings

The Department does not require that offset project developers and verifiers disclose the use of flexibility mechanisms in the project and verification reports.[22]

The Department approved three protocols that allowed flexibility mechanisms that were less accurate than the standard protocol approach. For example, one protocol's standard approach required direct measurement to quantify project offsets. The flexibility mechanism permitted other, less rigorous methods instead of direct measurement. A project developer applied this flexibility mechanism and used estimates in quantifying the project offsets. The project plan did not disclose this.

## Offset verifier assessment of compliance

### Background

The Department requires that offset verifiers disclose material findings related to emission reductions. However, it does not require verifiers to report on whether offset projects comply with regulatory requirements.

### Our audit findings

We reviewed verification reports for projects submitted under the anaerobic treatment of wastewater projects, nitrous oxide abatement from nitric acid production, and biofuel production and usage protocols. We found the reports included an assessment of the project against the eligibility criteria. However, the reports did not provide any discussion or conclusion regarding the project's compliance with protocol assumptions and other regulatory requirements. One verifier reported

19 Options available for the quantification, monitoring and reporting of offsets from activity covered by the protocol, including context for when they can be used relative to the standard protocol approach.

20 An emission source is any process or activity that releases a greenhouse gas into the atmosphere. A sink is any process, activity or mechanism that removes a greenhouse gas from the atmosphere.

21 Project plan explains how the project will meet the requirements of the *SGE Regulation* and the protocol. The project developer prepares this before project implementation. The project developer must implement the project according to the conditions described in the project plan.

22 Project developer prepares an annual project report that explains how the project was implemented relative to the project plan. A third party verifier reviews the project plan and project report against the protocol and *SGE Regulation* requirements.

that a project contained an estimated value, but did not state the protocol requires this value to be measured.

## Assurance conclusions

### Background

The Department requires all facility and offset project reports to be verified to a limited level of assurance. Verifiers the Department hires perform verifications to either a limited[23] or a reasonable level of assurance.[24] The Department's guidance requires verifications to a reasonable level of assurance only if the verifier deems it likely that enough appropriate evidence will be available to support an unqualified conclusion.[25]

The Department's guidance states that a verification conclusion for a limited level of verification can be unqualified, qualified or adverse. A qualified conclusion is issued when the verifier is unable to form an opinion on certain aspects of the greenhouse gas report due to circumstances the verifier, facility or offset project proponent cannot control. An adverse conclusion is issued when there are outstanding, unresolved material discrepancies.

### Our audit findings

**Key finding**

Guidance for verifying facility and offset project reports not clear

The Department's guidance for the form of the verifier conclusion in limited level of assurance engagements does not clearly explain:

- when a verifier is able to issue an unqualified conclusion
- what triggers the need for additional procedures
- when those procedures are sufficient

The guidance does not clearly describe how the process of forming a conclusion differs between limited and reasonable assurance engagements.

The Department asked some of its verifiers to perform reasonable assurance verifications, as a pilot project to help the Department develop clear guidance for these types of verifications. However, the Department provided insufficient guidance to verifiers on how to perform the verifications and form conclusions.

For verifier conclusions that were other than unqualified, we found the form and wording varied between verifiers and the meaning of the conclusions was sometimes confusing.

Three verifiers hired by the Department reported they were unable to issue a reasonable level of assurance conclusion due to identified material data quality discrepancies. Nevertheless, they issued an unqualified conclusion at a limited level of assurance. The standard practice for auditing is that a practitioner who cannot provide a reasonable assurance opinion must not provide a limited assurance conclusion.

One verifier found that a facility classified its emissions incorrectly. This error meant the data in the facility's compliance report were materially incorrect. Another verifier found that a facility had excluded an emission source that could have had a material impact on the data. Yet, both verifiers issued an unqualified limited assurance conclusion.

In revising its guidance for the verifiers, the Department is considering the *Proposed Canadian Standard on Assurance Engagements on Greenhouse Gas Statements*[26] (CSAE 3410). This proposed standard contains clear guidance for

23 A limited assurance engagement consists primarily of inquiry, analytical procedures and discussion related to information supplied to the verifier by the enterprise with the limited objective of assessing whether the information being reported on is plausible within the framework of appropriate criteria.

24 Reasonable assurance relates to the accumulation of the evidence necessary for the verifier to conclude that there are no material misstatements in the assertion.

25 An unqualified conclusion at a reasonable level of assurance states that the greenhouse gas assertion is free from material errors and omissions.

26 Auditing and Assurance Standards Board, *Proposed Canadian Standard on Assurance Engagements on Greenhouse Gas Statements*, March 2011

verifiers on how to form conclusions and describes the differences in evidence required in limited versus reasonable assurance engagements.

### Implications and risks if recommendation not implemented

Without clear guidance and its consistent application by all participants in the system, the Alberta government may not achieve its emission reduction targets.

## Department's processes for offsets

### Background

In January 2011, the Department revised its guidance for offset protocol developers. The guidance requires protocol developers to submit technical seed documents[27] to the Department, which posts them on the Carbon Offset Solutions website.

The technical seed documents identify:

- the design specifications for equipment to be used in projects under the protocol
- the specifics for each calculation in the proposed protocol
- a discussion of a good practice and any departures from industry standards

Technical working groups and Department employees evaluate the veracity and accuracy of statements in the technical seed documents, during a department review. The Department may also ask a third party to review the seed documents before a protocol developer submits a protocol for approval.

The Department uses a tool from the *Clean Development Mechanism*,[28] to assess whether to consider an activity for protocol development. The Department has adjusted this tool, known as a barriers assessment tool, to meet the requirements of Alberta's offset system. An activity's adoption level within a sector is one of the tests in this assessment tool. For the purposes of the Alberta offset system, the Department has set an adoption level of 40% as representing a common practice for an activity.

Common practices within a sector are not eligible as offsets. Though 40% is considered a benchmark adoption level, activities with higher adoption levels are not precluded from consideration for protocol development. Protocol developers must demonstrate to the Department, however, that enough other barriers exist to merit using the protocol in Alberta.

All approved protocols undergo a mandatory review at least every five years. In this review, the Department assesses the continued applicability of key elements within the protocol, such as assumptions, calculations and level of adoption. Upon review, the Department may conclude that an activity that previously qualified for offsets under the Alberta system has become widely adopted as a best practice. In these cases, the Department may decide to discontinue the associated protocol.

### Recommendation: ensure all protocols meet new standard, and improve transparency

**2 RECOMMENDATION**

We recommend the Department of Environment and Water implement processes to ensure that all approved protocols adhere to its protocol development standard.

We also recommend the Department of Environment and Water improve its transparency by making key information about how protocols are developed publicly available.

### Criteria: the standards for our audit

Approved protocols should adhere to the Department's protocol development standard.[29]

27 Technical seed document is a detailed analysis of the background information relevant to the emissions reduction or removal activity. It serves as reference document for persons wishing to better understand the final, approved protocol.

28 Kyoto Protocol, IPCC, 2007, Article 12

29 *Specified Gas Emitters Regulation, Technical Guidance for Offset Protocol Developers*, January 2011

Sufficient information for offset protocols should be available to users to allow them to make decisions. Sufficient information should also be available to allow the public to understand how the Department decides to approve protocols.

## Our audit findings

**Key findings**

- Plan needed to adapt all protocols to new standard
- Transparency needs improvement

The Department developed and approved 31 offset protocols between 2007 and 2010, under its previous guidance for offset protocol developers. The guidance introduced in 2011 defines a more stringent protocol development standard. Many of the existing protocols do not conform to the requirements of the new protocol development standard. Notwithstanding that the Department reviews each protocol every five years, it does not have a plan to adapt previously approved protocols to the new standard on a timely basis.

The Department does not have a process to monitor adoption levels of activities covered by protocols. This means the Department may be unable to determine which protocols should be reviewed before the mandatory five-year review.

The Department estimates that no-till and reduced-till farming practices under the existing tillage protocol have been adopted by 35% of farmers in Alberta. The Department has inadequate supporting documents indicating how it estimated this adoption level or how it will monitor when the 40% benchmark is reached.

Department management informed us it intends protocols to include information relevant to the creation, maintenance and reporting of an offset project, and some key information not in protocols is in the technical seed documents.

The Department did not have technical seed documents for two out of the three protocols we reviewed. The Department had a technical seed document for the third protocol. It contained a discussion of good practice guidelines and departures, a strong defence of the methodology chosen, as well as a detailed explanation of the uncertainty calculation applicable to the protocol.

Key information associated with the tillage protocol[30] is not publicly available. For example, the protocol uses a discount factor to arrive at a conservative estimate of offset credits from a project. The offset protocol also allows certain amounts of discretionary tillage under no-till farming. We found no support in the protocol or in other publicly available sources for the discount or the discretionary tillage factors. Department management told us the protocol does not allow certain reduced-till and no-till equipment; however, the protocol does not disclose this restriction.

## Implications and risks if recommendation not implemented

- Without ensuring that all protocols conform to the same standards for protocol development, the Department cannot ensure that it provides a level playing field for offset project developers.
- Without a clear and consistent approach to its protocols, the Department might be allowing carbon offset credits for activities that represent common practice in a sector.
- Without access to the relevant information, the public, users and offset project developers cannot know or understand the reasons behind the protocols the Department has approved.

30 *Specified Gas Emitters Regulation, Quantification Protocol for Tillage System Management*, February 2009. The protocol provides a methodology for quantifying carbon offsets through projects that undertake reduced- or no-till practices on agricultural land.

# Revenue Forecasting Systems—Follow-up Audit

## Summary

### What we examined

In 2007, we audited systems Department of Finance used to forecast revenues. Our objective was to see if the government had adequate systems for preparing the revenue forecasts. We also assessed whether the Department provided readers with the information they needed to understand the budget's forecasts, key assumptions and sensitivities.

We made five recommendations in our *October 2007 Report*. We reported on the Department's implementation of our recommendation about corporate income tax refunds, in our *October 2008 Report*. This year, we conducted a follow-up audit to assess the Department's progress in implementing the remaining four recommendations:

- incorporate the return from active management of the Alberta Heritage Savings Trust Fund in the forecast of investment income
- improve the method for estimating historical personal income growth used to forecast personal income tax revenues
- improve the model for estimating corporate taxable income
- enhance the public reporting of revenue forecasts

### What we found

The Department has implemented our four recommendations. The Department has ongoing processes in place to assess and refine its revenue forecasting models, although significant variances between the forecasts and actual results cannot be eliminated. The outcome of the Department's actions to implement our recommendations is that users of the budget documents now have better information to understand the key assumptions used in the forecasts. With this information, readers can assess for themselves what the likelihood of those assumptions being realized is, and what the potential impacts are if actual results differ.

## Audit scope

We focused our follow-up audit testing on the revenue forecasting systems used to produce the Government of Alberta's *Budget 2011* and the supporting documentation.

## Our audit findings

### Investment income—implemented

#### Background

In our *October 2007 Report* (vol. 1—page 142), we recommended the Department incorporate the return from active management of the AHSTF in the forecast of investment income. This would recognize the assumption within the investment revenue forecast that active investment management of AHSTF assets should result in higher returns than passive investment strategies.

#### Our audit findings

The Department has implemented this recommendation. The expected returns from active management, by asset class, are included in the investment income forecasting model used by the Department for *Budget 2011*.

### Personal income tax revenue—implemented

#### Background

In our *October 2007 Report* (vol. 1—page 143), we recommended the Department improve its method for estimating historical personal income growth used to forecast personal income tax revenues. Personal income growth is one of the key variables estimated and used in the personal income tax revenue forecast.

#### Our audit findings

The Department has a process to regularly assess its forecasting model. The Department reviews variances between actual results and assumptions in the personal income tax forecast, including

personal income growth. As part of this process, the Department benchmarks its personal income growth estimate against the estimates of other forecasters. Furthermore, the Department discloses the personal income growth estimate in the budget along with these benchmarks, which improves transparency to users of the budget information. We are satisfied that these processes would identify any significant opportunities to improve the precision of the personal income growth forecast.

## Corporate income tax forecast—implemented

### Background

In our *October 2007 Report* (no. 14, vol. 1—page 145), we recommended the Department improve its model for estimating corporate taxable income.

### Our audit findings

The Department is designing a better forecasting model for corporate income tax revenues. The Department started developing two new models for forecasting corporate income tax revenues and is continuing to develop and test these models. Further time is needed to assess the models through a complete economic cycle, as well as refine the models for the impact of discretionary deductions from taxable income such as loss carry forwards. As such, it may be several years before the Department can finalize a new model. We are satisfied that the Department's ongoing processes to continually evaluate and improve its forecasting model will continue to advance this project.

## Public reporting of revenue forecasts—implemented

### Background

In our *October 2007 Report* (no. 16, vol. 1—page 149), we recommended the Department enhance the public reporting of revenue forecasts by:

- explaining the expected range for the government's total revenue forecast, including the reasonability of previous forecasts
- explaining the difference between the government's non-renewable resource revenue forecast and those of other private sector forecasters
- disclosing investment income sensitivity to changes in rate of return earned on equity investments

### Our audit findings

Since our original audit, the Department has improved the qualitative discussion in successive budget documents. The information the budget document provides will help readers better understand the key factors and underlying assumptions that affect forecasted amounts. Several sections of the document now identify qualitative considerations behind assumptions, as well as the risks and implications that arise from these assumptions. For example, the Economic Outlook section of *Budget 2011* summarizes these key assumptions along with private sector benchmark comparisons.

Also included in *Budget 2011* was a retrospective comparison of *Budget 2010* assumptions with actual results for both the Alberta government and its private forecast comparators for non-renewable resource revenue.

The Department still needs to improve its methodology for estimating investment income sensitivity and disclose it. A recently issued accounting standard by the Public Sector Accounting Board will require the Department to discuss in its financial statements both qualitative and quantitative information about investment sensitivity to market risks. We will follow up on investment income sensitivity disclosures in future financial statement audits. The disclosure used in its future financial statements could also provide useful information for future budgets.

# Alberta's Mental Health Delivery System—Progress Report

## Summary of our previous work

In 2008, we audited systems to deliver mental health services in Alberta. Our audit focused on systems the Department of Health and Wellness and Alberta Health Services use to provide community-based and inpatient mental health services for adults. It did not include children's mental health services and forensic mental health services. We made 11 recommendations, all of which the Department and AHS accepted.

We reported the results of our 2008 audit in two phases:

- Phase 1, reported in our *April 2008 Report* (pages 63–93), focused on governance and accountability for implementing the 2004 provincial mental health plan. The resulting two recommendations were addressed mainly to the Department. We made these recommendations because clear accountability is critical for the Department and AHS to achieve the goals of any plan or strategy.
- Phase 2, reported in our *October 2008 Report* (pages 151–205), focused on AHS mental health operations and service delivery across the province, and resulted in nine recommendations. We made these recommendations because systems to plan and evaluate the delivery of mental health programs are critical for AHS management to ensure that AHS meets client needs and effectively allocates resources.

## Recent changes in the healthcare system

We started our 2008 audit with the Department of Health and Wellness, the Alberta Mental Health Board and nine regional health authorities, but finished our work with the Department and a single new entity in place—Alberta Health Services. This reorganization changed how provincial addiction and mental health services are organized and managed. AHS now manages all key aspects of addiction and mental health service delivery across the province. The Department is responsible for providing overall policy direction for addiction and mental health services in Alberta.

AHS management indicated that during the first year and a half after formation of AHS, much of their activity focused on developing a new organizational structure and aligning responsibilities. While formation of AHS made important province-wide changes possible, the reorganization itself has consumed considerable time and resources, and has slowed AHS's progress with developing and improving service delivery.

With the formation of AHS, the government also placed health services, including addiction and mental health services, in provincial correctional settings under AHS management. This represents a significant change in how mental health services in the province are organized, and an important step toward integrating the addiction and mental health service delivery system for clients who are in the correctional system.

Another important development since 2008 was the implementation of the new *Community Treatment Order Regulation*.[1] CTO[2] is designed to ensure that individuals receive their required treatment while living in the community. Implementing the *CTO Regulation* required involvement of addiction and mental health resources and expertise at both the Department and AHS. The CTO program is implemented. From January 1, 2011, approximately 100 CTO orders have been issued across the province.

1 See http://www.qp.alberta.ca/574.cfm?page=2009_337.cfm&leg_type=Regs&isbncln=9780779746750

2 For more information on CTO, see http://www.health.alberta.ca/newsroom/community-treatment-orders-MHA.html

In September 2011, government has approved the *Creating Connections: Alberta's Addiction and Mental Health Strategy*[3] and *Action Plan (2011–2016)*.[4] The *Strategy* sets the policy direction for addiction and mental health service delivery in the province and the *Action Plan* outlines key initiatives, timelines, entities responsible and potential performance measures.

## Objectives of this progress report

With a longer timeline to implement our recommendations, there is a higher risk that differences between our expectations and those of the Department and AHS may not be detected and resolved in a timely manner. To reduce this risk, in the summer of 2011 we performed work to provide a progress report on steps the Department and AHS took to implement our recommendations. This progress report was not a follow-up audit. We did not perform detailed testing to conclude whether the recommendations were fully implemented. Instead, we set out to answer three questions:

- Do the Department and AHS have plans to implement our recommendations and are they tracking their own progress?
- Do these plans target key risk areas identified in our 2008 reports?
- Is action taking place?

## Conclusion of this progress report

Overall, the Department and AHS demonstrated progress in implementing our recommendations. We can provide positive answers to all three questions we set out to answer. The Department and AHS management have plans to implement our recommendations and mechanisms to monitor progress; these plans target key risk areas identified in our 2008 reports and both entities are acting on their plans, target date for final implementation in 2014.

In determining the timing of future follow-up audit work, we will consider the impact of the following changes that took place after our original audit:

- In September 2011, the new Strategy[5] and the five-year action plan have replaced the 2004 *Provincial Mental Health Plan*. While most areas addressed by the Strategy align with the 2004 plan, the Strategy and the five-year action plan set new focus and specific implementation expectations.
- The management structure and accountability for addiction and mental health service delivery has changed significantly. AHS now manages all key aspects of addiction and mental health service delivery across the province.

If properly carried to the operational level, these changes can result in significant improvement and help resolve issues that were at the heart of our 2008 reports. However, in most cases the impact of these changes has not yet reached frontline service delivery. Until we can assess how new management systems are working, we cannot conclude whether our recommendations are implemented. In the meantime, we observed progress on all recommendations, as outlined in the following table.

3 See http://www.health.alberta.ca/documents/Creating-Connections-2011-Strategy.pdf

4 See http://www.health.alberta.ca/documents/Creating-Connections-2011-ActionPlan.pdf

5 The *Provincial Mental Health Plan* will be superseded by the *Alberta Addiction and Mental Health Strategy* when the strategy is formally adopted.

| Phase 1 Recommendations—April 2008 | Progress Observed |
|---|---|
| **Recommendation 3—to Department and AHS** Strengthen implementation of the *Provincial Mental Health Plan* | ✓ |
| **Recommendation 4—to Department** Ensure there is a complete accountability framework for the *Provincial Mental Health Plan* and mental health services in Alberta | ✓ |
| **Phase 2 Recommendations—October 2008** | **Progress Observed** |
| **Recommendation 16—to Department and AHS** Create provincial standards for mental health in Alberta | ✓ |
| **Recommendation 17—to AHS** Encourage mental health housing development and provide supportive living programs[6] | ✓ |
| **Recommendation 18—to AHS** Strengthen integrated treatment for clients with severe concurrent disorders | ✓ |
| **Recommendation—to AHS** Improve relationships with not-for-profit organizations to provide better coordinated service delivery | ✓ |
| **Recommendation 19—to AHS** Reduce gaps in mental health delivery services | ✓ |
| **Recommendation—to AHS** Improve coordination of mental health service delivery across the province | ✓ |
| **Recommendation—to AHS** Strengthen service delivery for mental health clients at regional clinics | ✓ |
| **Recommendation—to Department and AHS** Ensure the funding, planning and reporting of mental health services supports the transformation outlined in the *Provincial Mental Health Plan* as well as system accountability | ✓ |
| **Recommendation—to Department and AHS** Consider whether the implementation priority for aboriginal and suicide issues is appropriate for the next provincial strategic mental health plan | ✓ |

## Observations on progress

As part of our current work, we have a number of observations regarding changes in addiction and mental health service delivery. We report these observations to provide examples of specific steps the Department and AHS have taken in some of the key risk areas, and to emphasize the importance of managing these risks to improve delivery of addiction and mental health services across the province.

### Development of the Alberta Addiction and Mental Health Strategy

The Department coordinates the development of the province's addiction and mental health strategy. AHS takes the lead role in developing and aligning operational policies and guidelines at the service delivery level.

The new *Strategy* sets the overall policy direction necessary for core improvement initiatives and program development activities to proceed systematically across the province. Implementation of the new *Strategy* and close monitoring of progress against its five-year action plan will be critical to the success of Department and AHS efforts to improve service delivery in the addiction and mental health areas.

In developing the new *Strategy*, the Department actively engaged other government organizations, as well as representatives of non-government service providers. Unlike the 2004 plan, the new *Strategy* is supported by a detailed *5-year Action Plan* that outlines key results, high priority initiatives, entities responsible, implementation timelines and potential performance measures. Most initiatives under the *Strategy* will be the responsibility of the Department and AHS. However, the success of the *Strategy* will depend heavily on coordinated action with other government entities.

While the new *Strategy* was under development, AHS management placed strong emphasis on maintaining the existing level of service. AHS management made improvements where possible, and piloted new programs and treatment tools with an expectation of a province-wide roll-out after the new *Strategy* is in place. At the service delivery level, until AHS introduces new operational policies and guidelines, the policies of respective RHAs remain in effect.

6 Under the new *Strategy*, AHS is one of the entities responsible for specific initiatives in the housing area. Our follow-up work will focus on tasks AHS is responsible for under the new *Strategy*.

## Housing for the mentally ill

Secure and appropriate housing is one of the key determinants of health overall, and of mental health in particular. In the past, each RHA delivered its own mental health housing initiatives without a province-wide strategy or comprehensive analysis of supply and demand. Various government and non-government agencies provided mental health housing infrastructure, expert resources and funding. In 2008, we saw little evidence of systematic province-wide coordination of effort.

After 2008, the Department and AHS took steps to change the situation. The housing initiatives described below are works in progress and have not yet had a significant impact at the service delivery level. However, this work represents foundation pieces that were not in place in 2008, and without which systematic and comprehensive delivery of mental health housing services in the province cannot happen.

Mental health housing is receiving attention in the context of the government's overall emphasis on improving all housing services in the province. The Department plays an active role in coordinating with other departments and agencies to align funding and service delivery strategies around housing for the mentally ill. The Department and AHS are working on a housing framework that will classify housing by type and level of support required. AHS management indicated that they also expect to use this work to identify specific strategies and business models for creating new mental health housing options in the community.

AHS management is also working on initiatives to locate and quantify specific gaps in supply and demand for mental health housing. AHS is preparing a province-wide mental health bed inventory and map that will, for the first time, provide a comprehensive assessment of mental health housing supply in the province. On the demand side, AHS is developing a system to identify cases where hospital beds are occupied by mental health patients who no longer require acute care and who would be better served in a community assisted-living setting, but who remain in the hospital because appropriate housing options are not available. This alternative level of care project, combined with other waitlist information, will help AHS better understand the demand for mental health housing across the province.

## Concurrent disorders

Services provided by the former Alberta Alcohol and Drug Abuse Commission were not in the scope of our 2008 audit. However, in 2008 we audited the RHAs' systems to serve clients with concurrent disorders,[7] including their mechanisms to coordinate with AADAC. After 2008, addiction services and mental health services were placed under the same management structure within AHS. Therefore, we will include addiction services for clients with concurrent disorders in the scope of our follow-up.

In the past, AADAC provided addiction treatment services and the RHAs provided mental health services. Before 2008, coordination between the two services at the operational level was weak and in some cases absent. Addiction problems and mental illness often go hand-in-hand, and people who suffer from both face a significant risk that their treatment needs will not be met.

Integration of the two types of services is far from complete. However, Department and AHS management appear to have made important steps toward building an integrated system to provide concurrent-disorder clients with the right services at the right time. AHS can already demonstrate some changes at the frontline level.

During our 2011 work, we observed evidence of change at the frontline service level:

- For the first time, some AHS community clinic locations practice formal joint intake, case conferencing and treatment of individual clients who suffer from concurrent disorders.
- There is increased presence and involvement of addictions staff at mental health community

7 Concurrent disorder cases are those where clients present with both addiction issues and mental illness.

clinics and inpatient facilities, and of mental health staff at addiction treatment facilities.
- Obstacles to exchange of information between addiction and mental health service providers within AHS have been effectively removed.

## Aboriginal mental health

Before 2008, none of the RHAs had a strategy for aboriginal mental health that incorporated a full continuum of services. Such a continuum would include everything from prevention and education to acute treatment models and healing approaches. Although a province-wide aboriginal mental health framework[8] was in place, it was not supported by operational plans or initiatives to make positive change happen at the service delivery level. There was also no mechanism to collect information on aboriginal clients for evidence-based service development and resource allocation.

In addition to the new *Alberta Addiction and Mental Health Strategy* and its five-year action plan, there are other strategic directions where aboriginal addiction and mental health is an important consideration. AHS management indicated that it is working to finalize an overall strategy for the area of aboriginal health, and expects addiction and mental health education, prevention and promotion activities to be an important part of it.

Specific plans at the operational level will be critical to ensure that any strategy results in measurable, positive change at the service delivery level. It is also essential that these strategies and specific action plans are developed with input from stakeholders who will implement them. Without expertise and input from addictions and mental health service providers, there is a risk that the aboriginal health strategy may not identify or meet aboriginal addiction and mental health needs.

In October 2008, we also reported that there was no process in place to capture information on what types of specialized resources and programs aboriginal clients need most, and where. Such health information is critical for allocating addiction and mental health resources to aboriginal clients. The new *Strategy* identifies the need for data specific to health status of aboriginal people to inform planning, and to enhance evidence-based service development.

## Information systems

A fully integrated addiction and mental health system requires an effective and efficient flow of information between service providers and across the province. In 2008, there was no single information system for mental health. Hospital information systems were different and separate from community information systems. While most hospitals used the same information technology platform, they often had no direct access to each other's mental health information. Rural health authorities were working on a common IT solution, while Calgary and Edmonton were developing and using their own separate systems. Little systematic coordination of effort existed across the province.

AHS has inherited legacy information systems from the RHAs and AADAC. The Department and AHS management indicated that the ultimate IT solution would be the eventual transition of addiction and mental health services to the provincial electronic health record. Department and AHS management could not provide an approximate timeline for this transition. In the meantime, AHS has to provide services and gather information by making the best use of its existing systems.

The Department and AHS have developed a five-year plan to assess IT needs and existing systems in all program areas, including addiction and mental health. As this system-wide IT initiative is in its early stages, AHS management currently does not have specific action plans to better manage existing addiction and mental health information systems. In 2008, we emphasized the need for coordinated management of existing information systems. In 2011, we observed that

8 *Aboriginal Mental Health: A Framework for Alberta 2006* http://www.albertahealthservices.ca/MentalHealthWellness/hi-mhw-aboriginal-framework.pdf

development work on some of the old systems continues in different parts of the province without a clear view of how it fits with other IT solutions or how it will benefit other providers at other locations.

Formation of AHS has placed key public health care services under a single provincial management structure. This has effectively removed many obstacles to directly sharing information between different addiction and mental health service providers within AHS, and has created opportunities to improve effectiveness and efficiency of access to and analysis of information. Future development and implementation of specific action plans to improve access to and analysis of addiction and mental health information will be critical for developing an effective and efficient service delivery system.

# Seniors Care in Long-Term Care Facilities—Follow-up Audit

## Summary

### History of the audit

In our *May 2005 Report of the Auditor General on Seniors Care and Programs*, we made:

- five recommendations to the Department of Health and Wellness
- two recommendations jointly to the Department of Health and Wellness and the (then) regional health authorities
- one recommendation to the Department of Health and Wellness and the Department of Seniors and Community Supports
- five recommendations to the Department of Seniors and Community Supports

to improve how they manage care for seniors in long-term care facilities. See Appendix A for a detailed description of these 13 recommendations.

### What we examined

In this follow-up audit, we again examined how the Department of Health and Wellness and Alberta Health Services monitored standards for care—and how the Department of Seniors and Community Supports monitored standards for accommodation—in long-term care facilities. We also examined how information is identified to meet legislative requirements and, finally, how planning for the future needs of seniors and other stakeholders is done.

### Why this is important to Albertans

Providing quality care for seniors is a priority for Albertans. Without monitoring long-term facilities for compliance with standards, the organizations responsible for these services cannot reassure Albertans that seniors are receiving quality care. Decision makers need complete and accurate information to help them anticipate future needs for continuing care. Inadequate information may lead to inappropriate or inconsistent strategies for meeting seniors' needs in the future.

### What we found

Much has changed since our 2005 report. Nine RHAs have been replaced by AHS. As we reported in 2008, *Basic Service Standards* for long-term care facilities were updated by two sets of standards—Health and AHS monitor compliance with *Continuing Care Health Service Standards* (care standards), and Seniors monitors compliance with *Long-Term Care Accommodation Standards* (accommodation standards). AHS has made satisfactory progress developing a province-wide monitoring program for examining compliance with care standards. Health has implemented our recommendation by providing oversight to the AHS monitoring function and doing sample testing at facilities.

Although our original recommendation about monitoring standards was directed to Health and AHS, Seniors became responsible for monitoring accommodation standards. Seniors' monitoring program is working well to ensure long-term care facilities comply with accommodation standards.

Health, working with AHS and Seniors, is collecting sufficient information to enable it to monitor facility compliance with legislative requirements. AHS is still working towards consistent service agreements with facility operators across Alberta. Consistent agreements with concise and consistent reporting requirements will help AHS prepare complete, accurate and consistent reports on facility operations.

Health and Seniors continue to develop plans for seniors' care. A joint Health–Seniors plan[1] considers the need for investment, infrastructure, funding and drug coverage for seniors. Committees with representatives from Health, AHS and Seniors are working with other ministries to develop policy and implementation strategies.

1 *Aging in the Right Place*, see http://www.health.alberta.ca/documents/Continuing-Care-Strategy-2008.pdf

However, this planning includes the entire continuing care spectrum, from home care, to assisted-living settings, to facility-based long-term care. Specific planning for long-term care has been included in this broader initiative. Accordingly, we consider our 2005 recommendation about planning for long-term care facilities to be part of this larger process. We are considering the need to audit the planning process across the broad continuing care spectrum.

During this audit, we received information about staffing levels at long-term care facilities. We conducted preliminary inquiries and found that maintaining staffing levels is the responsibility of facility management. Costs for staffing levels are included in periodic financial reports by facilities to AHS. We are considering the need for more work in this area.

### What remains to be done

To fully implement the outstanding recommendations, momentum and focus must not be lost. AHS needs to complete development of its province-wide monitoring program. This is necessary for Albertans to have confidence that standards in long-term care facilities continue to be met consistently across the province. Completing the roll-out of its new contracting template, with updated and concise terms and conditions between AHS and long-term care facilities, will help AHS get the information it needs to fulfill its mandate. To make effective decisions, AHS needs accurate and timely information from facilities about services in long-term care facilities. Finally, planning for future needs in long-term care facilities has been included in broad planning initiatives for continuing care. These initiatives need action plans so that those who have to deliver on them can hold themselves accountable. On our part, we will consider an audit of this broader planning initiative to examine the systems to ensure that seniors' needs in all settings are being adequately planned for and met.

## Our audit findings

### Monitoring standards in long-term care facilities

#### Background

In our *May 2005 Report* (page 31), we recommended that Health and the RHAs working with Seniors, improve systems for monitoring compliance of long-term care facilities with basic service standards.

Long-term care facilities must now meet two sets of standards. The *Continuing Care Health Service Standards* apply to services that AHS provides and are monitored for compliance by AHS, with oversight from Health. These standards focus on resident care. *Long-Term Care Accommodation Standards* apply to services that Seniors provides and are monitored for compliance by Seniors. The accommodation standards focus on resident safety, security, meals, housekeeping and building maintenance. Both AHS and Seniors inspect long-term care facilities under their respective mandates and standards regardless of who owns them.[2] AHS reports that 173 facilities provide 14,550 beds for long-term care in Alberta.[3]

### Department of Health and Wellness

In our *April 2008 Report* (page 113), we noted that communication between Health and the former RHAs could improve. We saw that Health was performing facility audits to oversee the quality of services provided at long-term care facilities. We recommended that Health develop a risk-based model to select facilities to inspect, and validate RHA monitoring processes.

Health's Compliance Monitoring and Risk Management Branch now oversees the AHS program to assess long-term care facility compliance with care standards.

2 Long-term care facilities may be owned by public, private, or volunteer organizations.

3 AHS reported this unaudited total as of March 31, 2011. It includes auxiliary hospitals and nursing homes.

### Alberta Health Services

AHS has primary responsibility to monitor compliance with the care standards. AHS has divided the province into five zones. Management in each zone is responsible for monitoring compliance with care standards. AHS inspects each long-term care facility at least once every two years for compliance with care standards.

### Department of Seniors and Community Supports

Seniors is responsible for monitoring accommodation standards. The department inspects all long-term care facilities in the province annually. It does not monitor care standards.

## Criteria: the standards for our audit

Health, AHS and Seniors should have effective systems for monitoring the compliance of long-term care facilities with standards. They should:

- inspect facilities for compliance with standards
- take action to correct instances of non-compliance identified through facility inspections
- have systems to manage reportable incidents and complaints about services and programs

## Our audit findings

### Department of Health and Wellness—implemented

Health now oversees AHS's compliance monitoring process with its Compliance Monitoring and Risk Management Branch. In 2009, AHS did not have comprehensive monitoring systems across Alberta and the Branch supplemented AHS's activities by conducting facility audits. The Branch used a risk assessment approach of reviewing AHS inspection reports, Seniors accommodation standard inspection results and reportable incident disclosures to select facilities to inspect. In 2010–2011, the Branch also administered a self-assessment questionnaire to a sample of long-term care facilities. This led to onsite inspections letters to facilities about deficiencies noted in their submissions.

The Branch refers any reportable incidents or complaints to the appropriate AHS zone management. Zone management of these issues is described in our AHS findings section.

In 2010–2011, the Branch inspected long-term care facilities using tools such as incident reports, risk assessments, AHS inspection reports, facility self-assessments, disclosures of accommodation inspection results[4] and reports from the Health Facility Review Committee.[5]

The Branch has undertaken more of an oversight role since 2009. It reviews AHS's inspection results and is drafting its first annual report. We will periodically assess how the Branch is carrying out this evolving role as it monitors AHS activities.

### Alberta Health Services—satisfactory progress

The AHS monitoring system is continuing to develop. AHS inspects all long-term care facilities for care standards on a two-year cycle. Between these inspections, AHS inspectors may also visit a facility to follow up on non-compliance, in response to a complaint or because of a critical incident.

We examined AHS inspection reports for a sample of long-term care facilities across the province, and accompanied AHS inspections at five facilities in different parts of Alberta. We assessed if inspections were complete and timely, and how AHS followed up on non-compliance.

All AHS zones inspected facilities for compliance with Health's care standards. However, each zone used different inspection tools and methods. Monitoring visits ranged from three-day inspections carried out by a team, to visits of less than a day by one inspector. Much of this variation is caused by differences in zone resources and sizes of facilities. In some zones, AHS had staff dedicated to inspecting facilities for care standards; in others,

4 http://asalreporting.gov.ab.ca/astral/home.htm
5 http://www.health.alberta.ca/about/hfrc.html

staff also performed other duties. Currently all zones, at a minimum:

- distinguish between critical and non-critical standards
- share results with facility operators
- use action plans to document violations, outline and recommend solutions, identify persons responsible and set completion dates

We tested a sample of action plans from across the province and found inconsistencies in how they were prepared and managed. In one former health region, AHS had not carried out any inspections since 2009. However, Health had inspected a sample of facilities under their oversight role in that former region in 2009–2010 and a further sample in 2010–2011. Since our audit, both Health's Compliance Branch and AHS staff have included facilities in that former health region in their inspection planning.

AHS employees used zone-specific reporting tools to track the frequency and results of inspections. However, processes to manage complaints and reportable incidents were uniform across the province. When a complaint or incident occurred, AHS employees in that zone tried to resolve the issue as close to the source as possible. They analyzed the root cause of the problem, made recommendations to operators to fix it, then followed up to ensure compliance. If necessary, local AHS managers took these issues to more senior levels. All the evidence we saw showed that AHS management worked with operators to improve conditions and resolve concerns.

All monitoring is for compliance with current standards, but these standards are currently under revision. We understand that revised standards are expected to be approved in early 2012. To avoid developing a provincial system under the current standards and then changing it to accommodate revised standards, AHS is waiting for final approval of the revised standards before consolidating existing zone monitoring processes into a consistent province-wide program.

To fully implement this recommendation, AHS needs to develop a province-wide, consistent audit tool and put uniform procedures in place for care standards inspections across the province. Information gathered during this process should be regularly analyzed for anomalies or trends.

### Department of Seniors and Community Supports—implemented

Seniors is responsible for monitoring accommodation standards at long-term care facilities, and inspects each facility annually for compliance. The Seniors compliance monitoring system consists of 10 inspectors, all of whom follow the same inspection processes during facility visits. These processes are based on compliance with the accommodation standards.

We examined Seniors' inspection reports from a sample of facilities and accompanied inspectors on one facility inspection. We saw follow-up of non-compliance using an action plan to document violations. The plan outlined the violation, recommended solution, and expected and actual completion date. Seniors publishes the inspection results on its website.[6]

When a complaint or incident occurs, Seniors staff try to resolve the issue as close to the source as possible. Our evidence showed that management worked closely with operators to improve conditions and resolve concerns. They:

- performed root cause analyses
- made recommendations to operators to resolve issues
- followed up to ensure compliance

## Sufficient information from facilities

### Background

In our *May 2005 Report* (page 37), we recommended that Health, working with the RHAs and Seniors, identify the information required from long-term care facilities to enable the departments and authorities to monitor compliance and legislation. In the same report, we noted that the legislation defines Health and RHA responsibilities

6 http://www.asalreporting.gov.ab.ca/astral

for services in long-term care facilities. These roles and responsibilities are in the *Regional Health Authorities Act*, *Hospitals Act*, *Nursing Homes Act*, *Public Health Act*, and related regulations and policy.

In our original audit, we found variation among RHA contracts with service providers. Differences in reporting requirements, for example, made it difficult to assess whether operators complied with all legislation and standards across the province. We recommended that Health work with the RHAs and Seniors to identify the information they needed to ensure facilities were operating in compliance with legislation.

### Criteria: the standards for our audit

To ensure facility compliance with legislation, Health and AHS should have:

- systems to identify what information will help them monitor whether facilities comply with legislation
- processes to collect information
- systems to assess information and follow up on non-compliance

### Our audit findings

#### Department of Health and Wellness—implemented

The primary responsibility for ensuring facility compliance with legislation rests with AHS, with Health assuming an oversight role. Health's Compliance Monitoring and Risk Management Branch now gathers information about facilities through review of AHS' and Seniors' inspection results, administration of facility questionnaires, monitoring information from reportable incident disclosures, and conducting sample facility audits. Health has also finalized a reporting template for AHS zones to submit summaries of compliance with the standards, and established a policy and follow-up process if AHS zones do not report.

#### Alberta Health Services—satisfactory progress

Contracts that RHAs made with facilities remain in effect, but are not consistent in their requirements. Facilities are required by contract to report information to AHS. AHS uses these reports as tools to monitor compliance with legislative requirements and has developed a draft master service agreement for all long-term care facilities in the province. Final approval of the master service agreement is pending. The master service agreement is intended to document the responsibilities of parties to these contracts, including compliance with relevant legislation and standards. We will review the master service agreement when it is finalized and conclude whether reporting requirements would provide sufficient and appropriate information to management.

To fully implement this recommendation, AHS needs to:

- approve and implement a master service agreement with clearly documented responsibilities of parties, including compliance with relevant legislation and standards
- communicate requirements to all parties and assess the need to provide education or training
- implement the reporting procedures outlined by the agreement
- monitor compliance with the master service agreement's terms and conditions, once in place, including compliance with legislation
- resolve issues when they arise

## Future needs planning

### Background

In our *May 2005 Report* (no. 5—page 39), we recommended that Health working with RHAs and Seniors, develop a long-term plan to meet future needs for services in long-term care facilities. We also recommended that the departments publicly report on progress made toward goals in the plan. We noted that both departments had some plans for long-term care in place, but we did not see a cohesive or effective planning and reporting system

that would ensure objectives could be met. We recommended that Health, working with the RHAs and Seniors, develop a long-term plan to meet future needs for services in long-term care facilities and publicly report on progress made toward the goals of the plan.

Health and Seniors jointly released a high-level plan for continuing care in December 2008.[7] The plan considers services across the continuing care spectrum from home care to assisted living of varying care, to facility-based long-term care. The plan outlines five strategies:

1. investment in community supports
2. building infrastructure
3. changing the way accommodations are paid for
4. needs-based funding
5. providing equitable drug coverage

Seniors care is also the focus of a strategy in Health's current five-year health action plan.[8]

## Criteria: the standards for our audit

Health, working with AHS and Seniors should develop plans to meet future needs for services and have systems to publicly report on progress made toward goals in the plans. They should:

- have processes to collect and analyze information on projected future needs for services in long-term facilities
- have plans to satisfy identified future needs
- measure, evaluate and publicly report on results

## Our audit findings

### Health, working with AHS and Seniors—changed circumstances

With the creation of AHS and the development of the departments' *Aging in the Right Place* strategy, the structure of planning for seniors care has changed since our 2005 report. Today the focus is not solely on long-term care and how individual regions are planning to provide that care. Instead, planning focuses on a range of services from those delivered at home, through assisted living arrangements, to long-term care facility living across the province.

Alberta is using five key cross-ministry committees for planning seniors care each with representatives from Health, AHS and Seniors. Employees from the Department of Housing and Urban Affairs (now Municipal Affairs) and Department of Infrastructure participate on the committees as required. These committees which have completed their terms of reference, developed plans and have initiatives at various stages of implementation are as follows:

- Cross-Ministry Vision and Role Statement Committee
- Continuing Care Collaborative Committee
- Continuing Care Strategy Policy and Implementation Steering Committee
- Committee for the Continuing Care Services Planning Model
- Continuing Care Health Technology Innovation Steering Committee

Each AHS zone has continuing care committee working groups responsible for providing information to cross-ministry committees and implementing plans. Zone committee members include professionals in health care delivery, finance, labour, procurement and supply, and communications.

AHS also has initiatives for long-term plans for:

- provision of emergency supplies
- community and rural strategies
- integrated strategy development
- health care aids
- pharmacy
- zone-specific issues

Planning for long-term care has been included in a broader initiative to develop planning for the entire spectrum of continuing care. Therefore, we no longer consider this recommendation—to implement a narrow version of planning solely for long-term care—to be practical. We will consider the need for a future audit that examines the

7 *Continuing Care Strategy: Aging in the Right Place*, http://www.health.alberta.ca/documents/Continuing-Care-Strategy-2008.pdf

8 *Becoming the Best: Alberta's Five-Year Health Action Plan 2010–2015*, http://www.health.alberta.ca/documents/Becoming-the-Best-2010.pdf

broader scope of planning for the entire continuing care spectrum.

## Regional reporting of 10-year plans—changed circumstances

In our *May 2005 Report*, (no. 5—page 39), we recommended that Health require RHAs to periodically report their progress with implementing their 10-year continuing care strategic service plans. Health has shifted this requirement to the work being done by cross-ministry and zone committees. We therefore consider this recommendation to be no longer valid.

## Staffing inquiry

Our Office received an inquiry about staffing levels at long-term care facilities. In following up on it, we found that staffing is the responsibility of facility management. AHS tracks staffing levels through facility financial reports. Facilities must report how they spend the funding they receive. For example, facilities report to AHS funded hours of care for registered nurses, licensed practical nurses and health care aides on a quarterly and annual basis. This can give AHS an overview of staffing levels, but not a shift-by-shift view. Health and AHS respond to and investigate complaints about facility services and review surveys and facility self-assessments for indicators of the quality of service delivery. Indicators may point to inadequate staffing level situations. We are considering the need to do further work in this area to consider if staffing level data may contribute to better overall risk assessments.

## Appendix A—2011 status of recommendations made in 2005

# 2011 status of recommendations made in 2005

| October 2005 | Theme | Recommendations | Responsibility | 2008 audit | 2010 audit | 2011 audit |
|---|---|---|---|---|---|---|
| No. 5<br>page 58 | Developing and maintaining standards | Update the *Basic Service Standards* for services in long-term care facilities and implement a system to regularly review and update the *Basic Service Standards* to ensure they remain current. | Health working with AHS and Seniors | Implemented | | |
| No. 6<br>page 58 | Compliance with service standards | Improve the systems for monitoring compliance of long-term care facilities with the *Basic Service Standards*. | Health and AHS, working with Seniors | Satisfactory progress | | Health—implemented<br>AHS—satisfactory progress |
| No. 7<br>page 59 | Effectiveness of long-term care services | Assess the effectiveness of services in long-term care facilities. | Health and AHS, working with Seniors | | | Health and AHS are not ready |
| No. 8<br>page 59 | Effectiveness of long-term care services | Collect sufficient information about facility costs from AHS and long-term care facilities to make accommodation rate and funding decisions. | Health working with Seniors | | | Department is not ready |
| Unnumbered<br>page 61 | Information management | Identify the information required from long-term care facilities to enable the departments and AHS to monitor their compliance with legislation. | Health working with AHS and Seniors | | | Health—implemented<br>AHS—satisfactory progress |
| No. 9<br>page 62 | Determining future needs | Develop a long-term plan to meet future needs for long-term care facilities. We also recommend that the departments and AHS publicly report on progress made toward goals in the plan. | Health working with AHS and Seniors | | | Changed circumstances |
| Unnumbered<br>page 62 | Regional reporting | Periodically update and report on progress implementing 10 year continuing care strategic service plans. | Health | | | Changed circumstances |
| No. 10<br>page 65 | Developing standards—10-year plans | Establish standards for care and housing services provided in assisted living and other supportive living settings. | Health and Seniors | Implemented | | |
| No. 11<br>page 66 | Developing and monitoring standards | 1. Update the *Seniors Lodge Standards* and implement a process to maintain them.<br>2. Improve its systems to monitor management bodies' compliance with the *Seniors Lodge Standards*. | Seniors | Implemented | | |
| No. 12<br>page 66 | Effectiveness of Seniors Lodge Program | 1. Improve the measures it uses to assess the effectiveness of the Seniors Lodge Program.<br>2. Obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges. | Seniors | | | Department is not ready |
| Unnumbered<br>page 67 | Determining future needs | Improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program. | Seniors | | | Department is not ready |
| Unnumbered<br>page 67 | Program effectiveness | Improve the measures it uses to assess whether it is meeting the objective of the Alberta Seniors Benefit Program. | Seniors | | Implemented | |
| No. 13<br>page 69 | Information management | Obtain further information necessary to make income threshold, cash benefit and supplementary accommodation benefit decisions for the Alberta Seniors Benefit Program. | Seniors | | Implemented | |

Legend: AHS = Alberta Health Services
Health = Health and Wellness
Seniors = Seniors and Community Supports

# Public Security Peace Officer Program—Follow-up Audit

## Summary

### What we examined

In 2009, we examined systems at the Department of Solicitor General and Public Security to conduct compliance audits of authorized employers[1] of peace officers. These employers must comply with the *Peace Officer Act*,[2] Peace Officer Program policy and any other applicable legislation. We made three recommendations to the Department in our *April 2010 Report* (page 115). This year, we conducted a follow-up audit to assess the Department's progress in implementing our recommendations to:

- improve processes to monitor and ensure employers implement Department compliance audit recommendations
- use a risk-based approach for selecting onsite compliance audits and better document its compliance audit files
- improve monitoring of employers' investigations of complaints against peace officers

### Why it is important to Albertans

We did the original audit because Albertans need to know that the Department fulfills its oversight role. This role includes ensuring that employers and their peace officers provide an effective and appropriate level of public security within the framework of legislation and policy for the Peace Officer Program.

### What we found

We found that the Department has implemented all three recommendations. The Department has:

- established a Public Complaints Coordinator who uses a case management software database to maintain and monitor all facets of employer compliance audits and who also maintains all audit files
- implemented a risk-based protocol for selecting onsite employer compliance audits and improved how compliance audit files are documented
- improved its oversight process for monitoring employers' investigations of complaints against peace officers

## Audit objectives and scope

Our audit objective was to determine if the Department had implemented the three recommendations from our *April 2010 Report*.

In performing this follow-up audit, we:

- examined the Department's policies, procedures and other relevant documentation
- interviewed department management and staff
- examined a sample of employer compliance audits and monitored employers' investigations from 2010 and 2011

We conducted our fieldwork in January and July of 2011, focusing on the Department's actions since our 2009 audit.

## Background

Peace officers constitute a unique category of law enforcement in Alberta. They fulfill roles ranging from community safety to specialized law enforcement. Alberta Peace Officers can only be employed by an employer as designated under section 5(1) of the *Act*. As of August 2011, there were 306 employers and 3,269 authorized peace officer positions in Alberta.[3]

The Department, through its Public Security Division, has overall authority for the Peace Officer Program. Division auditors conduct onsite inspections of an employer's operations, to ensure

1 An authorized employer is an agency authorized under section 5(3) of the *Peace Officer Act* to employ or engage the services of a person defined in Section 1(f) of the *Act* as a peace officer; this does not include RCMP or municipal police officers.

2 S.A. 2006, c P-3.5

3 Current as of August 2, 2011; information provided by Solicitor General and Public Security.

compliance with all legislated standards and program policy. Any identified deficiencies are reported and the employer must correct them within timeframes set out in the report.

Employers must notify the Division of certain types of incidents involving a peace officer.[4] They are also required to investigate complaints against peace officers under Section 14 of the *Act*.[5] As well, employers must investigate if they become aware, other than through a complaint that a peace officer has violated the terms of his appointment.[6] Governing legislation and program policy require the employer to notify the Division of these investigations, provide status updates every 45 days and report on its disposition of the matter. The Division refers to any incident or complaint against a peace officer that an employer must notify it about as "Reportable." Division auditors are assigned to monitor and conclude employer-conducted investigations.

## Our audit findings

### Improve monitoring and compliance of audit recommendations—implemented

#### Background

In our *April 2010 Report* (no. 15—page 120), we recommended that the Department improve its processes to ensure employers implement Department compliance audit recommendations, by:

- developing, maintaining and monitoring a database of the implementation status of all audit recommendations
- requiring timely written confirmation of compliance from employers
- ensuring files on employers are properly maintained
- taking necessary and timely action against non-compliant employers

After completing a scheduled compliance audit, the Division auditor prepares a report with significant findings and recommendations the employer must meet to comply with governing legislation and program policy. The report sets out when the recommendations are to be implemented. An employer that fails to meet these timelines could lose its authorization to employ peace officers.

#### Our audit findings

The Department implemented this recommendation. It now uses a case management software database for recording and monitoring the status of outstanding audit recommendations. A separate file is created for each audit and associated recommendations are entered as tasks, with assigned due dates. Tasks are also created for other audit-related functions with specified time limits, such as the requirement for the Department to submit an audit report to the employer within 120 days. The database displays the time remaining for all inputted tasks in 15-day increments. It also identifies the outstanding tasks that are past their due date. The database can also generate a variety of on-demand summary statistical reports.

The Division also established a public complaints coordinator. This person is responsible for:

- entering all relevant data in the database and monitoring the implementation status of all tasks associated with the compliance audits
- following up with Division auditors on the status of any tasks identified by the database as outstanding and past their due date
- ensuring all documentation associated with a particular audit, including auditors' working papers and any correspondence, is kept together under one file

We examined a sample of employer compliance audits completed since the database and coordinator were put in place. We found all requisite data from the audit paper files were entered in the database and all pertinent tasks, including recommendations, were set up and being monitored by the coordinator. We found the paper file for each audit was complete. None of the

4 See pages 64–66 of the *Peace Officer Program Policy and Procedures Manual* for a detailed breakdown of these reporting requirements.

5 Section 14 of the *Peace Officer Act* authorizes a person to make a complaint to a peace officer's authorized employer.

6 Section 16 of the *Peace Officer Act*.

recommendations were past due, since the earliest implementation date was September 1, 2011.

## Use risk-based audit selection and better document files—implemented

### Background

In our *April 2010 Report* (page 122), we recommended that the Department use a risk-based approach for selecting onsite employer compliance audits. While the Department did have a system for selecting and scheduling audits, it did not conduct a risk assessment to determine the order in which employers should be audited.

We also recommended the Department better document compliance audit files, including documenting audit findings, identifying auditors performing the work and demonstrating sufficient oversight. We found auditors were not always signing their working papers nor was the manager signing them to demonstrate approval and exercise of appropriate oversight.

### Our audit findings

The Department has implemented this recommendation. It has developed a risk-based audit protocol that establishes four risk categories, each with its own audit frequency.[7] Employers are put into a particular risk category based on criteria such as frequency of reportables, issues of prior or continuing non-compliance with program policy, previous audit recommendations, legislation or the inherent risk associated with the nature of its peace officers' regular duties.

The Department's new database has the ability to track and generate reports on employer performance against these criteria. These reports are used to determine if the employer is in the appropriate risk category and will determine the future scheduling of onsite compliance audits.

The program's audit forms have been redesigned with a designated area for the auditor and reviewing manager to sign. We examined a sample of audit files and found:

- proper audit forms were being used and signed by the audit team
- appropriate documentation in the file notes and working papers to support the recommendations the Department made to the employers
- appropriate review by the manager

The Department has improved processes for documenting and conducting oversight of its compliance audit files.

## Improve monitoring of employers' investigations of peace officers—implemented

### Background

In our *April 2010 Report* (page 125), we recommended that the Department improve its monitoring of employers' investigations of complaints against peace officers by:

- following current policy and best practices, including managerial approval of concluded files and implementing proper filing procedures
- providing written notification to an employer when closing a file
- better maintaining its databases

During our original audit we found that the Division had poor file maintenance procedures:

- a number of files could not be located
- a large number of files closed in 2008 and 2009 were not submitted to the manager for approval
- manually maintained spreadsheets used to compile data for summary statistical purposes were not completed consistently

### Our audit findings

The Department has implemented this recommendation. All documentation received from an employer relating to any reportable incident is first sent to the public complaints coordinator. The coordinator assigns a file number to each incident

7 High Risk—an employer is audited within 6 months of being placed in this category; Moderate Risk—an employer is audited within 12 months of being placed in this category or every 24 months if it is classed permanently in this category with no specific triggering event; Low Risk—as staffing resources permit; Minor Risk—self audit only every five years.

and enters pertinent summary information in the database used for compliance audits.[8]

If there is no associated employer investigation, the matter is concluded in the database and documentation is placed in a file folder the coordinator maintains for each employer. Otherwise, the coordinator creates a separate folder and assigns the matter to a Division auditor for oversight. The coordinator monitors the ongoing status of each investigation using the database, creating tasks for each required action with assigned due dates.[9] Tasks identified by the database as overdue are followed up by the coordinator with the assigned auditor. The coordinator also ensures all documentation associated with a particular Employer investigation is placed in the proper Employer folder.

We examined a sample of employer investigations closed in 2010 and found:

- all files were complete and in their designated file cabinets
- corresponding entries were in the database for all significant documents found in the paper files, including 45-day status updates and initial incident reports for all files
- documentation in several files showed the coordinator followed up with the assigned auditor on overdue tasks
- all files contained concluding correspondence to the employer confirming the Division's approval of the employer's disposition
- all files contained tracking sheets signed by the team leader and the manager

The current database is a significant improvement to the electronic spreadsheet previously used. All employer documentation goes first to the coordinator, who enters the information in the database. Data are accurately and consistently captured. The database uses fixed data fields and drop-down menus, so the same type of information is consistently entered. The database can generate a variety of on-demand summary statistical reports as required by management. The current program threshold limits for a variety of reportable incident types have also been entered in the database.[10] The database is programmed to give an alert notification when the annual threshold limit has been reached by an individual peace officer for any of these incident types. The coordinator then creates an Alert Sheet and forwards it to the team leader for review, who may assign the matter to a division auditor for follow-up depending on the specific circumstances. The database generated several of these alerts during 2010.

8 Data collected for reportables is entered into a separate folder within the database, to keep it distinct from data associated to compliance audits.

9 These include 10-day diary dates for any internal file movements (such as having the investigator send the required letter of acknowledgement to an employer or a concluded file being sent to the manager for approval) and the 45-day status updates employers are required to provide.

10 This list includes 27 different types of incidents for individual peace officers, setting out the number of acceptable incidents in one year for such actions as excessive force, neglect of duty, unnecessary use of authority, use of a baton, etc.

# Elinor Lake—Follow-up Audit

## Summary

### What we examined

In 2007, we examined processes that the Department of Sustainable Resource Development relied on to sell public land to Elinor Lake Resort Ltd. This audit was done in response to a question put to the Auditor General in May 2007 by the Alberta Public Accounts Committee as to whether Alberta taxpayers received fair value for the land at Elinor Lake when it was sold to private interests.

In 2007, we concluded that the Department sold the land for fair value as required by the *Public Lands Act*.[1] The Department had processes in place to review and approve land sale agreements before finalizing sales. However, we also identified a number of areas for improvement and made the following three recommendations to the Department in our *October 2007 Report* (pages 159–163). We recommended that the Department:

- develop a guideline of when and with whom to consult when leasing and selling land
- establish a guideline to not sell public land until the lessee complies with key lease requirements
- evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land

### Why this is important to Albertans

Albertans want to be assured that disposition of public land to private interests is conducted in a fair and transparent manner, and that the public benefit from such dispositions would outweigh benefits of keeping the land in public hands.

### What we found

We found that the Department has implemented all three recommendations from our *October 2007 Report*. The Department has:

- introduced a public process for consultation for those wishing to lease or purchase public lands, which incorporates current Government of Alberta guidelines
- introduced a guideline that stipulates that no public land will be sold where there is non-compliance with any lease requirements by the lessee
- established circumstances under which a competitive process will be used to dispose of public land for the purpose of small-scale commercial recreation and tourism development

## Audit objectives and scope

Our audit objective was to determine if the Department has implemented the three recommendations from our *October 2007 Report*.

In performing the audit, we:

- examined the Department's policies, procedures and other relevant documentation
- interviewed department management and staff
- examined a sample of disposition files processed after 2007

We conducted our field work from December 2010 to January 2011 and focused on the Department's actions since our 2007 audit.

## Background

As part of its strategy to diversify Alberta's economy, the government recognizes that tourism and commercial recreation contribute to this through job creation and small business activity. One approach the Department has used to further this goal has been to consider applications from private entities to lease or buy public lands to develop tourism or commercial recreational

1 P-40, RSA 2000

facilities. Through a review and approval process, the Department assesses the viability and suitability of a proposed development before granting a lease or sale to the proponent.

Elinor Lake Resort Ltd. built and operated a commercial property at Elinor Lake under a 25-year lease it obtained from the Department in 1995.[2] In 2003, the Resort applied to purchase this property. The Department had a process to determine the fair value of land under the lease, and to ensure that all applicable lease conditions were met before the sale could proceed.

## Our audit findings

### Develop consultation guideline—implemented

#### Background

In our *October 2007 Report* (page 161), we recommended that the Department develop a guideline of when and with whom to consult when leasing and selling land.

It was not our objective to conclude whether the Department had a legal duty to consult at the time of the lease or the sale. Instead, we looked at whether the Department has a mechanism to determine if consultation is required.

When the Department receives an application to lease or buy public land for commercial tourism or recreational activity development, it sets out a number of situation-specific conditions that must be met before approval is given. These include consultation with any public land management agencies, other provincial government agencies, municipal authorities, or commercial or private entities that have an identified interest in the land, to ensure they have no objections to the proposed sale or lease.

#### Our audit findings

The Department has implemented this recommendation. The Department has developed an internal directive that provides guidance to staff for determining when consultation may be required for a wide range of activity applications, from oil and gas exploration to agricultural dispositions.

If consultation is necessary, the Department requires a proponent to follow a standard consultation process that is consistent with the *Government of Alberta's First Nations Consultation Policy* and *Consultation Guidelines*. The procedures associated with this process are publicly available on the Department's web site.[3]

If First Nations rights or traditional uses of land may be affected, the Department follows the *First Nations Consultation Policy on Land Management and Resource Development* (May 2005)[4] and *Alberta's First Nations Consultation Guidelines on Land Management and Resource Development* (updated November 2007).[5] These require the Department to consult with First Nations where any proposed land management or resource development on Crown land may adversely affect their rights or traditional uses of this land.

The Department has not received any commercial recreational applications since the new guidelines and process were introduced. There were no completed application files for us to examine and verify the use of the new guidelines and processes.

However, based on the work we did during this follow-up audit, as well as the original audit, we expect that the Department will follow these consultation guidelines.

2 Elinor Lake is located in Lakeland County, near Lac La Biche, Alberta.

3 See http://www.srd.alberta.ca/LandsForests/FirstNationsConsultation/Default.aspx

4 See http://www.aboriginal.alberta.ca/documents/GOAFirstNationsConsultationPolicy-May-2005.pdf

5 See http://www.aboriginal.alberta.ca/documents/First_Nations_and_Metis_Relations/First_Nations_Consultation_Guidelines_LM_RD.pdf

## Compliance with lease requirements—implemented

### Background

In our *October 2007 Report* (page 162), we recommended that the Department establish a guideline to not sell public land until the lessee complies with key lease requirements.

When Elinor Lake Resort Ltd. applied to buy the property in 2003, the Department determined it was not in compliance with a lease requirement to maintain a stipulated buffer zone between the shoreline of the lake and the development. This buffer zone was a key requirement of the lease, as it was intended to ensure both undisturbed ecological protection and integrity of the lake bank, and provide recreational public access. Despite this, the Department did not include compliance with this key requirement as a condition of sale in its offer letter to the Resort. Rather, it simply noted any structures in the buffer zone would have to be removed and the land reclaimed by September 30, 2005.

The Resort failed to meet this deadline and the Department issued a ministerial order requiring compliance by April 16, 2007, which was subsequently extended to July 31, 2007 in a revised order. Nonetheless, the Department still proceeded with the sale of the property before the Resort complied. At the time of our original audit, the Department was still in the process of inspecting the property to determine if the Resort had fully complied with the order. We noted during our current follow-up audit that the Department has now confirmed compliance with the order.

### Our audit findings

The Department has implemented this recommendation. In October 2010, the Department finalized a new directive on *Sale of Public Land Under Disposition*, which stipulates that a direct sale of public land under disposition for recreation, commercial industrial or commercial recreation purposes will not be considered unless a lessee is in full compliance with lease requirements. This same guideline was publicly set out on the Department's website that same month, as *Information Letter IL 2010–03*.[6]

Although the Department had no sales of public land under commercial recreational application since this directive came into force, we reviewed three recent cases for other types of regulatory action where compliance issues were present. In all three cases, the Department turned down requests to buy leased lands because of identified lessee non-compliance issues. In one of these cases, the Department eventually cancelled the leases due to non-compliance. We also saw evidence on file that the Department relied on *Information Letter IL 2010–03* in correspondence to the lessee, reiterating it would only consider a sale of the property once full compliance was achieved.

## Consider the use of requests for proposal from other interested parties at the time of the lease—implemented

### Background

In our *October 2007 Report* (no. 33—page 163), we recommended that the Department evaluate whether government objectives could be met by introducing requests for proposals from all interested parties whenever an entity applies to put substantial improvements on public land.

The lease mechanism for commercial recreational use of land is set out in the *Alberta Tourism Recreational Leasing Process*.[7] The Department typically leases public land on a first-come first-served basis in response to an unsolicited request from an interested party. However, the Department only enters into a lease if an applicant commits to make substantial improvements to the land, which must be consistent with the government's land development goals and

6 See http://www.srd.alberta.ca/MapsFormsPublications/Forms/InformationLetters/documents/IL2010-03-SaleofPLUnderDisposition-Oct29-2010.pdf

7 This process is designed for applicants seeking to develop tourism and commercial recreational facilities requiring long-term leases and permanent structures, which is applicable to the Elinor Lake situation. The *Alberta Tourism Recreational Leasing Process* has been in effect since 1989 and was most recently revised in 1999.

objectives. By granting the lease, the Department approves these improvements and the lessee is not required to obtain any subsequent permission to begin the development. The lessee retains exclusive rights to the land for the duration of the lease. The Department retains the right to terminate the lease if the development is not of a type, or not completed in a timely manner, as set out in the agreement.

In 2007, we reported that after the Department enters into a lease and the lessee stays compliant with the lease conditions, any subsequent sale of that land may proceed only with the lessee's agreement. In effect, this puts lessees in a preferential position with respect to the purchase of land, and the Department's objectives for land development may not be fully met. On the other hand, a competitive sale process may not be fair to lessees if they have already invested heavily into substantial improvements to the land. Consequently, we expected the Department to consider the use of requests for proposals at the time of the original lease application, not at the time of any subsequent application to buy the land and after improvements have been made.

## Our audit findings

The Department has implemented this recommendation. In 2008, the Department started an initiative to review and improve the *Alberta Tourism Recreational Leasing Process*. As part of this initiative, the Department formally evaluated whether it should use the request for proposals mechanism for leasing public land for commercial recreation and tourism developments. In July 2010, the Department developed internal guidelines that set out circumstances where a request for proposals mechanism will be used for competitive allocation of leases for small-scale, for-profit, facility-based commercial recreation and tourism developments on public land. In all other cases, a first-come first-served process will continue to be used.

AUDITOR GENERAL *Alberta*

# Financial Statement, Performance Measures and Control Systems Auditing

Report of the Auditor General of Alberta—November 2011

# Financial Statements and Performance Measures

## Independence

Our independence from those that we audit is required to ensure that our work is objective—based on facts and executed without preconceived opinion. The independence requirement is symbolized through the appointment of the Auditor General by the Legislative Assembly and our liaison with the Assembly through the Standing Committee on Legislative Offices. A primary element of the relationship is the Assembly's prerogative to authorize financing of the Office's operations.

Our business practices are designed to ensure that our staff remain free of any association that could potentially impair their objectivity.

## Financial Statements

The Government of Alberta prepares and issues financial statements to provide information to Albertans about the Province's financial performance. The Auditor General, under the *Auditor General Act*, audits the financial statements of the Government of Alberta, as well as every ministry, department, regulated fund and provincial agency.

An audit is the collection and evaluation of evidence about the fairness of financial statements. By obtaining this evidence, the Auditor General is able to provide a high level of assurance to Albertans about whether the financial statements prepared by management are fairly presented and free from material misstatements. An audit includes assessing where errors (misstatements) could occur in the financial statements, testing management's internal control over financial information and performing additional audit procedures.

The audit, and the auditor's report, adds credibility to the financial statements by telling Albertans whether the financial statements are reasonable. This does not mean that the Auditor General examines every transaction, or guarantees that the financial statements are error-free. Millions of transactions are summarized into the Province's financial statements. Audits, therefore, necessarily focus on areas of risk and on places where errors are likely to occur.

## Performance Measures

The Government of Alberta prepares and issues performance measures to provide information that allows Albertans to assess the government's overall performance, including performance toward goals in specific policy areas.

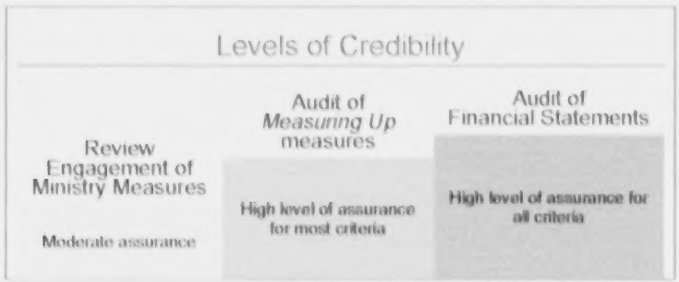
The Auditor General reviews ministry performance measures. In addition, the Auditor General audits the performance measures in *Measuring Up*.[1] *Measuring Up* reports progress on strategies and performance measures in the 2010–2013 *Government of Alberta Strategic Business Plan*. These reviews and audit add credibility to the government's performance reports.

Management determines which measures will be reported and requests the Auditor General to review or audit particular measures. These reviews and audits are not required under the *Auditor General Act*. However, they add credibility to public reporting by examining the reliability, comparability, understandability and completeness of performance measures.

1 *Measuring Up* reports progress on strategies and performance measures in the *Government of Alberta Strategic Business Plan*.

## Financial Statements and Performance Measures

Audits are designed to provide a higher level of assurance than reviews. Reviews consist primarily of evidence collected via inquiries and analysis. Audits include these procedures as well as additional techniques to collect evidence, such as testing of internal control, confirmation, inspection, observation and recalculation. Because more evidence is collected, using different types of techniques, audits provide relatively more assurance than reviews that the information is reasonable. Audit criteria for performance measures differ from financial statement audits as the relevance criteria are not included. This is because relevance applies to sets of measures, rather than individual measures currently selected by management for review and audit. The chart below shows levels of credibility that our Office provides:


Levels of Credibility
Review Engagement of Ministry Measures
Moderate assurance
Audit of *Measuring Up* measures
High level of assurance for most criteria
Audit of Financial Statements
High level of assurance for all criteria

### Cost of Our Work on Financial Statements and Performance Measures

It requires significant effort for the Office of the Auditor General to complete its audits and reviews of financial statements, *Measuring Up* and performance measures. In total, this work (which excludes our system audit work) took over 153,000 hours, at a full cost of $18.2 million, including $4 million (28,000 hours) paid to contracted services. This work resulted in the audit and review reports indicated in the tables that follow. It also resulted in various recommendations to management to improve systems and processes.

**We issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2011 (unless otherwise stated) for the following entities:**

**Consolidated Financial Statements of the Government of Alberta**

**Aboriginal Relations**

- Ministry of Aboriginal Relations

**Advanced Education and Technology**

- Ministry of Advanced Education and Technology
- Department of Advanced Education and Technology
- Access to the Future Fund
- Alberta Enterprise Corporation
- Alberta Foundation for Health Research
- Alberta Innovates—Bio Solutions
- Alberta Innovates—Energy and Environment Solutions
- Alberta Innovates—Health Solutions
- Alberta Innovates—Technology Futures
- Athabasca University
- University of Alberta
- University of Calgary
- University of Lethbridge

## We issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2011 (unless otherwise stated) for the following entities

**For the year ended June 30, 2010**

- Alberta College of Art and Design
- Bow Valley College
- Grande Prairie Regional College
- Grant MacEwan University
- Grant MacEwan University Foundation
- Keyano College
- Lakeland College
- Lethbridge College
- Medicine Hat College
- Mount Royal University
- NorQuest College
- Northern Alberta Institute of Technology
- Northern Alberta Institute of Technology Foundation
- Northern Lakes College*
- Olds College
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology

**Agriculture and Rural Development**

- Ministry of Agriculture and Rural Development
- Department of Agriculture and Rural Development
- Agriculture Financial Services Corporation
- Alberta Livestock and Meat Agency Ltd

**Children and Youth Services**

- Ministry of Children and Youth Services
- Department of Children and Youth Services
- Calgary and Area Child and Family Services Authority
- Central Alberta Child and Family Services Authority
- East Central Alberta Child and Family Services Authority
- Edmonton and Area Child and Family Services Authority
- Métis Settlements Child and Family Services Authority
- North Central Child and Family Services Authority
- Northeast Alberta Child and Family Services Authority
- Northwest Alberta Child and Family Services Authority
- Southeast Alberta Child and Family Services Authority
- Southwest Alberta Child and Family Services Authority

**Culture and Community Spirit**

- Ministry of Culture and Community Spirit
- Department of Culture and Community Spirit
- Alberta Foundation for the Arts
- Historic Resources Fund
- Human Rights Education and Multiculturalism Fund
- The Alberta Historical Resources Foundation
- The Government House Foundation
- The Wild Rose Foundation

**Education**

- Ministry of Education
- Department of Education
- Alberta School Foundation Fund

**For the year ended August 31, 2010**

- Alberta Teachers' Retirement Fund Board
- Northland School Division No. 61

**Employment and Immigration**

- Ministry of Employment and Immigration

**For the year ended December 31, 2010**

- Workers' Compensation Board–Alberta

* As at October 2011, this audit has not been completed—see page 63

## Financial Statements and Performance Measures

We issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2011 (unless otherwise stated) for the following entities:

### Energy

- Ministry of Energy
- Department of Energy
- Alberta Utilities Commission
- Energy Resources Conservation Board
- Post-Closure Stewardship Fund

**For the year ended December 31, 2010**

- Alberta Petroleum Marketing Commission

### Environment

- Ministry of Environment
- Department of Environment
- Climate Change and Emissions Management Fund

### Executive Council

- Ministry of Executive Council

### Finance and Enterprise

- Ministry of Finance and Enterprise
- Department of Finance and Enterprise
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Investment Management Corporation
- Alberta Risk Management Fund
- Alberta Securities Commission
- ATB Financial
  - ATB Insurance Advisors Inc.
  - ATB Investment Management Inc.
  - ATB Securities Inc.
- Consolidated Cash Investment Trust Fund
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers (Registered) Pension Plan
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

**For the year ended September 30, 2010**

- Gainers Inc.

**For the year ended December 31, 2010**

- Alberta Capital Finance Authority
- Alberta Local Authorities Pension Plan Corporation
- Alberta Pensions Services Corporation
- Credit Union Deposit Guarantee Corporation
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

### Health and Wellness

- Ministry of Health and Wellness
- Department of Health and Wellness
- Alberta Health Services
- Calgary Laboratory Services Ltd.
- Capital Care Group Inc.
- Carewest
- Health Quality Council of Alberta

## Financial Statements and Performance Measures

**We issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2011 (unless otherwise stated) for the following entities:**

### Housing and Urban Affairs

- Ministry of Housing and Urban Affairs
- Department of Housing and Urban Affairs
- Alberta Social Housing Corporation

### Infrastructure

- Ministry of Infrastructure

### International and Intergovernmental Relations

- Ministry of International and Intergovernmental Relations

### Justice[2]

- Ministry of Justice
- Office of the Public Trustee, Estates and Trusts

### Legislative Assembly

- Legislative Assembly Office
- Office of the Chief Electoral Officer
- Office of the Ethics Commissioner
- Office of the Information and Privacy Commissioner
- Office of the Ombudsman
- A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

### Municipal Affairs

- Ministry of Municipal Affairs
- Department of Municipal Affairs

### For the year ended December 31, 2010

- Improvement Districts 4, 9, 12, 13 and 24
- Kananaskis Improvement District
- Special Areas Trust Account

### Seniors and Community Supports

- Ministry of Seniors and Community Supports
- Department of Seniors and Community Supports
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities Central Region Community Board
- Persons with Developmental Disabilities Edmonton Region Community Board
- Persons with Developmental Disabilities Northwest Region Community Board
- Persons with Developmental Disabilities Northeast Region Community Board
- Persons with Developmental Disabilities South Region Community Board

### Service Alberta

- Ministry of Service Alberta

2 Our auditor's opinion on the financial statements of the Office of the Public Trustee, Estates and Trusts for the year ended March 31, 2011 is unqualified. Our opinion includes an additional paragraph highlighting that the financial statements were prepared under a framework using the described basis of accounting further explained in a note to the financial statements. We concluded that the financial statements were prepared in accordance with the described basis to comply with the provisions of the *Public Trustee Act* and may not be suitable for another purpose.

## Financial Statements and Performance Measures

**We issued an unqualified independent auditor's report on the financial statements for the year ended March 31, 2011 (unless otherwise stated) for the following entities:**

### Solicitor General and Public Security

- Ministry of Solicitor General and Public Security
- Department of Solicitor General and Public Security
- Alberta Gaming and Liquor Commission
- Alberta Gaming Research Institute
- Alberta Lottery Fund
- Victims of Crime Fund

### Sustainable Resource Development

- Ministry of Sustainable Resource Development
- Department of Sustainable Resource Development
- Natural Resources Conservation Board
- Environment Protection and Enhancement Fund
- Land Stewardship Fund

### Tourism, Parks and Recreation

- Ministry of Tourism, Parks and Recreation
- Department of Tourism, Parks and Recreation
- Alberta Sport, Recreation, Parks and Wildlife Foundation
- Travel Alberta

### Transportation

- Ministry of Transportation

### Treasury Board

- Ministry of Treasury Board
- Long-Term Disability Income Continuance Plan—Management, Opted Out and Excluded
- Long-Term Disability Income Continuance Plan—Bargaining Unit

### For the year ended December 31, 2010

- Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust
- Government of Alberta Dental Plan Trust

### *Measuring Up* (audit report on performance measures)

**The following ministries and organizations engaged us to review selected performance measures in their 2010–2011 annual reports. We issued unqualified review engagement reports on the measures reviewed:**

Aboriginal Relations
Advanced Education and Technology
Agriculture and Rural Development
Children and Youth Services
Culture and Community Spirit
Education
Employment and Immigration
Workers' Compensation Board
Energy
Environment
Executive Council
Finance and Enterprise
Alberta Pensions Services Corporation
Health and Wellness
Infrastructure
Justice
Municipal Affairs
Seniors and Community Supports
Service Alberta
Solicitor General and Public Security
Sustainable Resource Development
Tourism, Parks and Recreation
Treasury Board

# Ministry Annual Reports

## Financial statements

Our independent auditor's report on the Government of Alberta's consolidated financial statements for the year ended March 31, 2011 contains an unqualified opinion.

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements. As auditors, we test only some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

We issued unqualified auditor's opinions on ministry financial statements for the year ended March 31, 2011.

## Performance measures

### Public performance reporting—Ministry performance measures

We reviewed 44 performance measures from 21 annual reports released in June 2011. Unqualified review engagement reports were issued for each of the 21 Ministry Annual Reports listed in the table on page 56.

Each department is responsible for publicly reported measures included in the results analysis section of its annual report. Processes at each department should support each publicly reported performance measure. Department management annually selects a sample of these measures for the Auditor General to review. A review is not an audit, and provides a limited/moderate level of assurance.

### Recommendation: improving processes to select performance measures

**3 RECOMMENDATION**

We recommend the Department of Treasury Board and Enterprise work with other ministries to improve processes for selecting measures for public reporting, including the sample to be reviewed by the Auditor General.

### Criteria: the standards for our review

Processes at each department should support the selection of measures for public reporting and the Auditor General to review. In selecting their measure(s), management should consider the following:

1. Each measure selected should have a well-established methodology and reporting history.
2. Current data should be available for each measure at least once during a three-year business planning cycle. For example, a review should not take place in the off year(s) of a biennial or triennial survey.
3. Each measure selected should be enduring, with a clear intention to continue reporting it publicly.

### Our review findings

**Key finding**

Performance measures initially selected for public reporting and review did not meet selection criteria

In planning our review, we found that certain measures initially selected by management for review did not meet the first two criteria. Certain measures did not have well-established methodology. For some of these measures, management made significant changes to the measure during the year. For others, information was available for only part of the year or was not available within the three-year reporting cycle.

Although processes exist to identify measures for public reporting and review by our Office, we found that the staff at several ministries did not fully appreciate the implications of changing their methodology or introducing new measures. As a result, six measures were dropped from the scope of our review.

### Implications and risks if recommendation not implemented

Without well-established processes for selecting performance measures, the measures selected and reported may not provide adequate information to assess performance.

## Improve analysis, review and change updates for measures—implemented

### Background

In our *October 2009 Report* (no. 16—page 136), we recommended that the Ministry of Treasury Board work with ministries to improve processes at the ministry level relating to analysis and review of performance measures. In our *October 2010 Report* (page 103), we noted that management had made satisfactory progress on improving its processes.

### Our audit findings

The Ministry of Treasury Board has now implemented our recommendation. It held a debriefing session on the 2010 audit process. It also held a workshop to reinforce ministries' understanding of the materiality guidelines and requirement for management review and analysis.

For the 13 measures that we audited in *Measuring Up* 2010–11, we found that ministries prepared an analysis of results and documented the review of results by management.

# Advanced Education and Technology—Ministry and Department

## Overview of the Department

The Department of Advanced Education and Technology's core businesses are to educate Albertans and build a knowledge-based economy that supports the Government of Alberta's long-term strategic goal—*Creating opportunity—a highly skilled workforce that supports an innovative, value-added, competitive and sustainable economy by educating Albertans and building a knowledge-based economy.*[1] The Department provides strategic leadership to entities that report to the Minister through the following:

- **Campus Alberta**—a concept for the advanced education system consisting of the Department, publicly funded post-secondary institutions and the apprenticeship and industry training system. This includes collaboration with private institutions, community-based organizations, industry and Alberta Innovates entities.
- **Alberta Innovates**—a concept for the Alberta research and innovation system consisting of the Department, the Alberta Research and Innovation Authority, and four provincially funded corporations:
  - Alberta Innovates—Bio Solutions
  - Alberta Innovates—Energy and Environment Solutions
  - Alberta Innovates—Health Solutions
  - Alberta Innovates—Technology Futures

Alberta Innovates collaborates with the Alberta Enterprise Corporation, key innovation support agencies, publicly funded post-secondary institutions, industry and government.[2]

## Summary

We have no new recommendations to the Department. It implemented our three prior years' recommendations by:

- improving internal controls over the student finance program—see below
- giving guidance to institutions, through the Campus Alberta Strategic Directions Committee, on using an IT control framework to develop control processes that are well-designed, efficient and effective—see page 60
- developing a formal risk-based strategy for auditing private institutions—see page 61

The next chapter includes the results from our audits of entities under Alberta Innovates and Campus Alberta that report to the Minister. Given the internal control issues that persist at several institutions, we plan to better understand how the Department is supporting the Minister in holding these institutions accountable.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

### Matters from prior-year audits

### Improve controls over student finance program—implemented

#### Background

In our *October 2010 Report* (page 108), we recommended that the Department improve its controls over student finance by:

- properly approving changes to student loan programs and communicating the changes to staff
- reviewing and approving changes to assumptions and methodologies used in calculating the allowance for loan relief completion payments and loan subsidies

1 http://www.finance.alberta.ca/publications/budget/budget2011/goa-business-plan.pdf (page 11)

2 http://www.aet.alberta.ca/media/294108/aet-annual-report-2010-11.pdf

### Our audit findings

The Department made multiple changes to its programs in the past year, such as increasing lifetime student loan limits and discontinuing the Alberta Opportunities Bursary and Northern Student Supplement programs. We found the Department appropriately approved and communicated these changes to staff.

In its 2011 budget, the Department announced new eligibility criteria for loan relief completion payments. This affects the Department's estimate for allowance for loan relief completion payments. The Department appropriately approved the assumption for this estimate. The Director of Financial Operations, Services Branch, also reviewed and approved the calculation of the allowance for loan relief completion payments.

Although we have concluded that the Department has implemented well-designed controls, we were unable to assess the operating effectiveness of the controls. We consider this recommendation implemented, but will continue to test these controls in future audits as they relate to significant estimates in the financial statements.

## Well-designed and effective IT control policies and processes—implemented

### Background

In our *April 2008 Report* (no. 8—page 195), we recommended that the Department give guidance to institutions on using an IT control framework to develop control processes that are well-designed, efficient and effective. We also provided a summary of findings for IT controls at institutions. In our *April 2010 Report* (page 171), we indicated that the Department should work through the Campus Alberta Strategic Directions Committee to give this guidance. In our *October 2010 Report* (page 109), we reported that the Department and institutions created the Post-Secondary System—Information and Technology Management (PSS-ITM) project to develop and provide guidance on the use of a high-level IT control framework.

### Our audit findings

Our recommendation to the Department to give guidance on using an IT control framework is now implemented. The Department, working with institutions, developed and communicated:

- a high-level IT control framework
- six high-level policies[3] within the framework
- procedures, standards and guidelines for the areas of IT governance, privacy and change management

They also provided guidance and training on the IT control framework and how each institution can use and customize it to implement IT controls to mitigate risks and support financial reporting.

The Department and institutions continue to develop and provide a collection of policies, standards and procedures that each institution can use and customize to suit their own needs. While this work is ongoing, we conclude that the Department implemented our recommendation, as there is a well-designed process to provide ongoing guidance to institutions to develop and implement IT controls.

We also determined that some institutions are still working to implement efficient and effective controls to mitigate identified risks. Over the last several years, we made recommendations to implement and use an IT control framework directly to 20 institutions. Six[4] of those institutions have now implemented our recommendations. Other institutions continue to work on improving their IT controls. Starting with our June 2012 year-end IT control assessments, we will follow up with individual institutions to assess their use of the IT control framework to identify risks and implement effective controls to mitigate them. We will continue to make recommendations to individual institutions.

3 *IT Governance and Management Policy, Enterprise Architecture, End-user Acquired or Developed Solutions, Privacy, Information Security & Identity Management, Information Management* and *Technology Management*

4 Grant MacEwan University, Lakeland College, NorQuest College, Northern Alberta Institute of Technology, Southern Alberta Institute of Technology and the University of Calgary

if they have not developed and implemented effective IT controls to mitigate risks when necessary.

## Monitoring vocational programs offered by private institutions—implemented

### Background

In our *April 2008 Report* (page 42), we recommended that the Department develop a risk-based strategic audit plan of new and follow-up audits, including timelines and resources to audit private institutions, and to issue orders and information on deficiencies within a reasonable time after completing the audit.

### Our audit findings

The Department has developed a formal risk-based strategy for selecting private institutions to audit, including a new tool to help assess the risks of non-compliance based on identified risk factors, past audit results and other information about private institutions. The Department plans to start using the tool for the 2012–2013 year. It uses a private sector accounting firm to conduct the audits.

In January 2011, the Private Vocational Training Branch of the Department formally established a compliance team. This team developed standard templates to document results of the audits, which resulted in a more timely completion of the audit reports. This also allowed the Department to act on deficiencies more promptly.

# Advanced Education and Technology—Post-Secondary Institutions and Alberta Innovates Corporations

## Overview of entities that report to the Minister of Advanced Education and Technology

The following entities report to the Minister of Advanced Education and Technology:

- 21 public post-secondary institutions consisting of universities, colleges and technical institutes
- four Alberta Innovates corporations—Bio Solutions, Energy and Environment Solutions, Health Solutions and Technology Futures
- Alberta Enterprise Corporation

They contribute to the Government of Alberta's long-term strategic goal: *Creating opportunity—a highly skilled workforce that supports an innovative, value-added, competitive and sustainable economy by educating Albertans and building a knowledge-based economy*. These entities are governed by boards, whose members the Minister and Lieutenant Governor in-Council appoint.

## Internal controls at post-secondary institutions

### The need for good internal controls

Well-designed and effective controls are important for an organization to meet its goals and objectives cost-effectively. Effective controls enable and support efficient and effective operations, safeguard assets, support compliance with legislation, and enable timely and accurate accountability of an organization's financial and non-financial results. Effective controls include clear policies and processes; clear roles and responsibilities; sufficient, qualified and trained staff; and secure information systems that provide timely and accurate information. Implementing and maintaining effective control environments involves effective oversight by boards and audit committees who hold management accountable.

### Poor internal controls at certain institutions

Alberta College of Art and Design, Grant MacEwan University, NorQuest College and Northern Lakes College are unable to demonstrate that they have effective control environments. In our *April 2011 Report* (page 65), we reported that we had not completed the June 30, 2010 financial statements audit for Northern Lakes College as management experienced significant difficulty in completing the financial statements. By September 2011—15 months after Northern Lakes College's year-end, management has still been unable to prepare complete and accurate financial statements. For the June 30, 2011 financial statement audits of ACAD, Grant MacEwan and NorQuest, we removed our staff from the audits until each respective management group provided us with assurance that they had completed their reviews and were comfortable with the completeness and accuracy of the financial statements and supporting documents, and had resolved problems that we identified.

Weaknesses in the internal controls and financial reporting affect the proper management of these institutions. We view it as unusual that these institutions are experiencing problems creating financial statements supported by quality working papers, to the extent that we had to temporarily remove our audit teams to allow management to resolve the problems. We also believe these problems are indicative of underlying issues in the institutions' control environments. We have several outstanding recommendations to ACAD and Grant MacEwan University, and expect further recommendations from our current audits in this sector. In the case of Grant MacEwan University, the problems in completing the year-end financial statements are partially related to implementing a new enterprise resource planning system.

However, we noted in both our *April 2011 Report* (page 66), and *October 2010 Report* (page 20), that the University still needed to develop manual processes and controls before implementing the new system. NorQuest also implemented a new enterprise resource planning system during the year. Recognizing that improvements are needed in internal controls, management has started an internal control refresh project.

The problems we have faced on the post-secondary institution's financial statement audits have had significant impacts on our Office's resources, resulting in increased costs to Alberta taxpayers to audit these institutions. As of October 31, 2011, management at ACAD, Grant MacEwan University and NorQuest College had sufficiently dealt with the issues to allow us to complete our financial statement audits.

We will report the results from these audits in our next public report.

### What needs to be done

Boards and audit committees at these institutions must make it a priority to hold management accountable for implementing and maintaining effective internal controls. The Department, supporting its Minister who appoints these boards, must also hold institutions accountable. If institutions do not make this a priority and deal with existing issues, they may be unable to prepare timely and accurate financial statements, and may be unable to demonstrate that they are achieving their goals and objectives cost-effectively.

## Summary of our recommendations

### Alberta Innovates—Technology Futures

Alberta Innovates—Technology Futures should improve its governance practices for the Corporate Information Systems project, by:

- establishing formal project management policies, processes, standards and controls for the CIS project
- establishing a project steering committee consisting of key stakeholders
- documenting and communicating the roles and responsibilities for all stakeholders, including the steering committee, board sub-committee and project sponsors
- updating the business case to set out the project's objectives and that enables the steering committee to monitor and measure the project's progress
- formally assessing the impact of the project on other strategic business initiatives and periodically updating the assessment—see page 65

### University of Calgary

The University has implemented our recommendation to improve security controls in the PeopleSoft system—see page 69.

The University of Calgary should also:

- adopt an integrated risk management approach to identify and manage risks that affect the university as a whole—see page 66
- implement an organization-wide IT change management policy with supporting procedures and standards—see page 67
- implement processes to ensure the IT change management policy is consistently followed throughout the organization—see page 67
- ensure access to its PeopleSoft system is secured and meets the University's security standards—see page 68

### University of Lethbridge

The University implemented our recommendations to:

- clearly define and communicate the financial research-management roles and responsibilities of Research Services, Financial Services and Deans—see page 71
- improve its processes for investing in research projects—see page 71

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

# Findings and recommendations

## Alberta Innovates—Technology Futures

### Matters from the current audit

### Corporate Information System

#### Background

In 2004, the former Alberta Research Council began building a new management information system. The project was not completed and ARC wrote-off $2.2 million in project costs consisting of $1.4 million in consulting fees and $800,000 in licensing costs.

In 2010, ARC, Alberta Ingenuity, iCORE and nanoAlberta merged into a new corporation, named Alberta Innovates—Technology Futures, with the former ARC management and operations comprising the largest part of the new corporation. Since then, the Corporation has experienced significant business inefficiencies, which it expects to resolve through implementation of a corporate information system, at a budgeted cost of approximately $2.5 million. Specifically, the Corporation identified that it requires the following systems:

- financial management
- human resources management
- contracts management
- project management
- grants management

At the time of our audit work in March 2011, the Corporation was drafting a request for proposal to identify solutions to their need for management information systems. Since the CIS project was in the early stages of planning, our audit focused on the Corporation's systems to plan and govern the CIS project.

Project governance refers to planning, coordinating and monitoring all aspects of a project to ensure that it achieves its objectives, goals and benefits while complying with the Corporation's policies, procedures and organizational structure. Governance should provide a unified and coherent framework for all project management functions. These functions include the project's scope, budget, schedule, quality, resource, risk, communication and procurement management as well as controls to ensure the project meets its objectives, on time and on budget.

#### Recommendation: improve project management governance and controls for new information systems

**4 RECOMMENDATION**

We recommend that Alberta Innovates—Technology Futures improve its governance practices for the Corporate Information Systems project, by:

- establishing formal project management policies, processes, standards and controls for the Corporate Information System project
- establishing a project steering committee comprised of key stakeholders
- documenting and communicating the roles and responsibilities for all stakeholders, including the steering committee, board sub-committee and project sponsors
- updating the business case to set out the project's objectives that enables the steering committee to monitor and measure the project's progress
- formally assessing the impact of the project on other strategic business initiatives and periodically updating the assessment

#### Criteria: the standards for our audit

The Corporation should have effective controls to oversee the project. This includes clearly defined and documented:

- project management policies, processes, standards and controls
- process for managing project governance
- responsibilities for project governance including the role of project sponsor and project steering committee

- updated and approved business case analysis where significant changes are made to the strategy or outcomes of the project
- appropriate project reviews at clearly identified phases or gates, based on discrete project deliverables
- impact of the project on other business initiatives

### Our audit findings

**Key finding**

No formal governance processes for the CIS project, which is being initiated to improve the Corporation's current business inefficiencies

The Corporation is in the early stages of the project and is still working on improving project governance and controls. The Corporation established a project team and contracted with an advisory firm to work with staff from June 2010 to December 2010 to develop the business requirements for a new CIS. The Corporation contracted with another consulting firm to assist and support the Corporation in its request for proposal selection process. Although functions were outsourced to third parties, the Corporation remains accountable for successful completion of the project. In our June 5, 2009 management letter to ARC, we pointed out that the lack of systems development processes could and did contribute to the previous project's failure.

This year, we found that the Corporation's project governance practices were not consistent with best practices. Specifically, the Corporation did not:

- have formally approved and implemented project management policies, processes and standards
- use a project steering committee to oversee the needs analysis and corporate study to identify project requirements
- document responsibilities for project governance, including the role of the board sub-committee, steering committee and project sponsors
- monitor the business case against set objectives and alignment with the Corporation's strategic plan and risk management systems
- define and implement processes to monitor and review the CIS project at specific project checkpoints
- formally assess the project's impact on other strategic business initiatives, to ensure the project is in alignment with those initiatives

In response to our June 5, 2009 management letter, the former ARC had developed policies and processes following termination of the previous Management Information Systems project. When we assessed the current project, those policies and processes were not available; rather, the Corporation relied on the skills of the Project Manager. Management advised us that they would rely on an implementation partner to provide a structured project management process. However, the Corporation still needs to implement project management policies, processes and standards to supplement the implementation partner's controls. Part of the reason for the failure of the previous management information system project in the former ARC, was due to not having the proper internal resources to support and monitor the contracted resource.

### Implications and risks if recommendation not implemented

The role of project governance is to provide a decision-making framework that is logical, robust and repeatable to govern an organization's capital investment. A lack of project governance could result in the Corporation implementing an inadequate corporate information system or incurring significant financial losses.

## University of Calgary
## Matters from the current audit
## Enterprise risk management

### Background

Enterprise risk management is an integrated approach used by organizations to manage risks related to achieving their objectives. It is a continuous, proactive process to understand, manage and communicate risk from an organization-wide perspective. Enterprise

management is an effective tool to enable University management to account for its risk management responsibilities and engage the board of directors in discussions about the:

- nature, likelihood and potential impact of risks related to the University
- University's tolerance for various risks
- cost and priority of initiatives to mitigate risks
- results of ongoing monitoring

Risk management involves assessing the risks of uncertain outcomes, ranking them based on likelihood and effect on the University and then implementing appropriate responses to mitigate significant risks. An effective risk assessment process should consider strategic, operational, financial and legislative risks, related to achieving University objectives.

### Recommendation: enterprise risk management

**5 RECOMMENDATION**

We recommend that the University of Calgary adopt an integrated risk management approach to identify and manage the risks that impact the University as a whole.

### Criteria: the standards for our audit

The University should have an enterprise risk management plan that helps it predict, mitigate and manage the impact of the various risks it is exposed to.

### Our audit findings

**Key finding**

No risk management plan to identify, assess and manage risks for the University as a whole

The University has different risk plans and processes at various levels. Management also carries out risk management in various ways in day-to-day operations, and informs the Board on risks and risk mitigation efforts on an ad hoc basis. However, the University does not have an integrated and comprehensive framework to manage the risks related to the objectives of the University as a whole.

### Implications and risks if recommendation not implemented

The absence of an integrated approach to manage risks reduces the University's ability to manage risks effectively.

## IT change management controls

### Background

Information technology change management is an important control that ensures changes to IT systems and infrastructure are properly requested, developed, tested and implemented. The University has different change management processes for PeopleSoft, other applications and network and server infrastructure. A consistent approach to change management that is known and followed can increase an organization's efficiency and security.

### Recommendation: improve IT change management controls

**6 RECOMMENDATION**

We recommend that the University of Calgary implement:

- an organization-wide IT change management policy with supporting procedures and standards
- processes to ensure the policy is consistently followed throughout the organization

### Criteria: the standards for our audit

The University should have effective controls that ensure:

- all IT change requests are standardized, logged, approved, documented and subject to formal change management control procedures
- changes to its important applications, databases and infrastructure cannot be made outside the defined change management procedure

### Our audit findings

**Key findings**

- Inconsistent change management processes exist for IT systems and IT infrastructure changes
- Change management policies and procedures are not followed consistently

The University has a defined process for making changes to the network and server infrastructure that hosts its databases and applications. However, the University's application change management processes are separate from and not aligned with its infrastructure changes. This results in changes that are not consistently documented, approved and tested.

For its PeopleSoft application the University was unable to demonstrate that:

- its use of issue logs and change control tickets ensured changes to PeopleSoft were properly requested, tested, approved and implemented
- changes were not made to its PeopleSoft application without being documented in either its issue log or control ticket systems

### Implications and risks if recommendation not implemented

Unauthorized or undetected changes may result in the loss or unauthorized use of data or in applications not being available when needed.

## Access to PeopleSoft

### Background

The University uses the computer application PeopleSoft to provide human resources, financial and other services to students and staff. PeopleSoft needs effective security and access controls to ensure that only authorized changes are made in the application and that are data hosted and processed in the application is complete, accurate and available when needed.

User access management is the control process that ensures:

- users have only the access they need for their job role and function
- actions can be traced back to a single person to ensure accountability
- unauthorized users cannot access systems or specific information within systems
- the completeness, accuracy, validity and restricted access to data can be relied on for financial reporting purposes

### Recommendation: secure access to its PeopleSoft system

**7 RECOMMENDATION**

We recommend that the University of Calgary ensure access to its PeopleSoft system is secured and meets the University's security standards.

### Criteria: the standards for our audit

The University should have effective policies, procedures and standards for:

- strong authentication—passwords and other security configurations should meet the University's security design document
- account review—management should regularly review all PeopleSoft accounts, including privileged and administrative accounts, for need and appropriateness

### Our audit findings

**Key finding**

System security requirements are documented, but not implemented in PeopleSoft system

We confirmed that the University has defined requirements for strong password authentication and the need for a SecurID and token to access critical University information. However, we determined that the security settings in the PeopleSoft system did not meet the University's:

- strong authentication or password requirements
- security configuration for user-account lockouts after multiple failed access attempts

We also determined that privileged and administrative user accounts were not reviewed by the business or data owners to ensure those accounts:

- were still needed
- had appropriate access

### Implications and risks if recommendation not implemented

Inadequate access controls may result in unauthorized access to or use of important information in the PeopleSoft system.

## Matters from prior-year audits

We include below matters reported to you in prior-year audits, to the extent there has been a change in the status of the recommendation.

## PeopleSoft security—implemented

### Background

In our *October 2006 Report* (vol. 2—page 24), we recommended that the University of Calgary improve controls in the PeopleSoft system by:

- finalizing and implementing the security policy and the security design document
- ensuring that user access privileges are consistent with both the user's business requirements and the security policy

In our *October 2010 Report* (no. 11—page 112), we reported that the University implemented two of the five parts of the original recommendation and this year we followed up on the remaining three.

### Our audit findings

Through our review of the PeopleSoft security we determined that the University fulfilled the requirements for the three remaining parts of the original recommendation, including:

- PeopleSoft security design document
  - implemented PeopleSoft security design documents
- controlling access to PeopleSoft
  - implemented its PeopleSoft security design document including a user account role security matrix
- security procedures to update user account access
  - developed procedures and controls to remove user accounts when user access is no longer required

Through our testing of PeopleSoft security this year we identified additional areas for improvement in PeopleSoft security and access controls. We make a new recommendation to the University to further secure access to its PeopleSoft system on page 68.

## Improving the University's control environment—satisfactory progress

### Background

In the *October 2008 Report* (no. 21—page 213), we recommended that the University of Calgary improve effectiveness of its control environment by:

- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs
- defining clear goals, responsibilities and accountabilities for controls systems' design, implementation and monitoring
- documenting its control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitoring controls to ensure processes operate effectively

### Criteria: the standards for our audit

The University's control environment should ensure that:

- business processes are efficient and result in timely and accurate financial and non-financial information, employees have adequate knowledge and are properly trained to perform their duties

- controls are well-designed, understood, documented, assessed for adequacy and centrally monitored for effectiveness
- roles and responsibilities are defined to ensure controls are properly implemented, improved, maintained and monitored

## Our audit findings

The University's Innovative Support Services (iS2) project is intended to deliver outcomes and recommend changes to improve service of the University's support functions, reduce costs of delivering these services and address aspects of this recommendation. The deliverables include improvements to internal controls, clarification of roles and responsibilities, and achieving efficiencies and cost effectiveness.

We have updated our understanding of the University's progress to implement this recommendation by interviewing management and reviewing updated iS2 documents provided to the audit committee. The iS2 project is being implemented in five phases that started in March 2009 and were scheduled to be completed in July 2011.

Phases 4 and 5 of the project include organizing the support units, deploying the shared service delivery team and developing systems changes to PeopleSoft to adequately implement the process changes associated with the iS2 project. The anticipated "go live" date of the new PeopleSoft system was at the end of July 2011. Management has asserted that this recommendation will be fully implemented upon completion of the final phase, which includes change management, training initiatives and a "stabilization period" that now is planned to wrap up in the fall of 2011. However, the continuing evolution of improved business practices is to continue past the iS2 project to ensure that the University continues to be efficient in their processes.

The iS2 project focus is on the implementation and adoption of new accountabilities, authorities, process and policies enabled by automated workflows, system controls and improved access to information. Key areas include:

- enabling the authority and accountability framework in PeopleSoft
- deploying the shared service delivery team
- reorganizing support units as required
- completing the redesign of the research organization and its financial processes
- implementing planned changes to core financial processes to meet unique research needs
- design changes to PeopleSoft, with appropriate support provided

The University's Board of Governors approved the authority and accountability framework. The delegation of authority policy and related matrices are under various stages of development and are being communicated upon completion. Implementing the integrated service delivery model (ISD) is a long-term project that involves both organizational and system changes. The ISD framework is currently under development and is being implemented as part of the iS2 project.

To fully implement this recommendation, the University must adhere to the key activities and timelines identified in the iS2 project. The University still needs to complete the processes to monitor controls and ensure processes operate effectively. We will assess those controls and processes after the completion of the iS2 project, expected in fall 2011.

# University of Lethbridge

## Matters from prior-year audits

### Research financial controls

### Clearly defined financial research roles and responsibilities—implemented

#### Background

In our *October 2008 Report* (page 225), we recommended that the University of Lethbridge clearly define and communicate the financial research-management roles and responsibilities of Research Services, Financial Services and deans.

#### Our audit findings

In March 2009, the University created the *Research Roles and Responsibilities* document with input from a committee with representatives from the deans of Arts and Science, Research Services and Financial Services. This document outlines the specific responsibilities for researchers, research staff, deans, department chairs, Research Services and Financial Services. The University circulated the document to various departments.

### Investing in research projects—implemented

#### Background

On June 21, 2005, the University and Iunctus Geomatics Corp. incorporated ATIC. The two parties agreed to establish a research facility on the University campus to carry out research that directly supported other strategic research initiatives of the University and Iunctus. The University also wanted to promote optical remote sensing as a strategic area of research excellence and to attract high-quality faculty and students.

In our *April 2009 Report* (no. 1—page 26), we recommended that the University of Lethbridge:

- strengthen processes for assessing risks and benefits relating to prospective business relationships
- strengthen processes to oversee and monitor financial and other risks throughout the life of business relationships
- periodically report to the Board of Governors key information on financial and other risks in research management

#### Our audit findings

The University implemented the recommendation as follows:

**Improve processes for risk assessment**
The Board of Governors approved a new *Business Investment Evaluation Guideline*. This outlines the processes for assessing risks and benefits related to prospective business/investment relationships and the processes for overseeing and monitoring financial and other risks throughout the life of the business/investment. This also identifies the required reporting. We were unable to test the effectiveness of management's implementation of the *Business Investment Evaluation Guideline* as the University has not entered into new business relationships during the year. We may review this in the future when the University enters into a new venture.

**Improving oversight and monitoring**
The University's Vice President of Finance and Administration periodically reports to the Board of Governors key information on financial performance of ATIC, including an assessment of risks related to the ATIC project. The University's senior management attends ATIC board meetings as an observer.

In addition, the University's Board of Governors approved a transition strategy for the University's investment in ATIC.

### Clear and complete research policies—satisfactory progress

#### Background

In our *October 2008 Report* (page 227), we recommended that the University improve systems to ensure that:

- financial research policies are current and comprehensive

- proper documentation is maintained for approving research accounts
- researchers, research administrators and financial services staff are aware of changes to financial policies and are properly trained to comply with the policies

The University has policies and processes for approving research proposals, managing projects, approving overspending in research accounts, and recording and reporting research financial information to funding agencies and management. However, some policies were vague and outdated and had led to inconsistencies when applied.

## Our audit findings

In March 2009, the Board of Governors approved an updated research policy titled, *Research Roles and Responsibilities*, that applies to routine and non-routine grants and no longer distinguishes between the two. The updated policy outlines responsibilities for monitoring compliance with research policies. In addition, the University developed guidance for administering specific internal research grants. This guidance is posted on the University's website. Also, financial services monitors financial and reporting compliance with the financing agencies' requirements.

The University also updated its research proposal form. It now requires researchers to complete the form online before opening a research fund. The online form flows through an approval process that depends on the type of grant or contract requested. During 2010, the University updated the practical guide to conducting research at the University. This guide provides guidance on research administration, proposal submission, process for conducting research and policies and procedures.

However, we still noted inconsistencies and exceptions in testing if controls are operating effectively throughout the year. For example, we noted research files that didn't have the appropriate signed agreements or proper approvals.

To fully implement the recommendation, the University should:

- ensure that all new research files contain the required documents, such as grant proposal forms and formal agreements approved by appropriate officials in accordance with University policy
- ensure that the list of agencies that prohibit overhead charges is current and that the supporting correspondence with the funding agencies is maintained on file as evidence that overhead charges are prohibited by the agency

## Implications and risks if recommendation not implemented

Without good account-approval processes, clear and comprehensive policies, and staff training, controls over research may fail and the University may lose funding if research sponsors' needs are not met.

# Agriculture and Rural Development

## Summary of our recommendations

### Department

The Department of Agriculture and Rural Development has:

- implemented our October 2006 recommendation to adopt an IT security policy and enhance awareness and monitoring of these policies—see below
- made satisfactory progress implementing our October 2001 recommendation to evaluate the success of its grant programs in meeting the Ministry's goals—see page 74

### Agriculture Financial Services Corporation

Agriculture Financial Services Corporation should:

- ensure its key lending controls operate as designed—see page 74
- ensure its procedures to develop the AgriStability accrual are properly documented and reviewed—see page 75

Agriculture Financial Services Corporation has:

- implemented our October 2010 recommendation to improve the effectiveness of its processes to determine the specific loan loss allowance on impaired loans—see page 76
- implemented our October 2007 recommendation to improve its loan loss methodology and process—see page 76
- made satisfactory progress implementing our October 2010 recommendation to improve its process for conducting compliance audits and investigations—see page 77

### Alberta Livestock and Meat Agency Ltd.

Alberta Livestock and Meat Agency Ltd. should:

- improve its risk management process—see page 77
- ensure compliance with its contracting procedures—see page 78

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendations

### Department

### Matters from prior-year audits

### IT security policy awareness and enforcement—implemented

#### Background

In our *October 2006 Report* (vol. 2—page 40), we recommended that the Department of Agriculture and Rural Development (formerly the Department of Agriculture, Food and Rural Development):

- document, approve and communicate to employees and contractors its information technology security policies and standards
- implement a process to monitor compliance by employees and contractors with the information technology security policies and standards

#### Our audit findings

The Department approved a comprehensive set of IT policies that are available to staff on their intranet site. These include:

- *IT Security Policy*
- *IT Security Policy User Guide*
- *Acceptable Use Policy*
- *Wireless Device Policy*

The Department is migrating its IT systems to the Government of Alberta's shared network. Once on the network, the Department will be subject to the Government of Alberta's security policies and procedures. The government's Chief Information Security Officer announced that it would be implementing mandatory IT security training for all employees and a logon banner that informs users they must comply with Government of Alberta security policies. Once implemented, this policy requires the Department to ensure all staff receive

training. The training and banner were scheduled to be implemented in 2010, but have been delayed to late 2011.

We consider this recommendation implemented because the Department has established comprehensive IT policies and procedures that are available to staff on their intranet site, and continues to work with Service Alberta to provide staff with additional security awareness training as it becomes available.

## Grant programs—satisfactory progress

### Background

In our *October 2001 Report* (no. 3—page 50), we recommended that the Department evaluate the success of its grant programs in meeting Ministry goals. In our *October 2005 Report* (no. 20—page 113), we repeated this recommendation.

In our *October 2009 Report* (page 165), we noted satisfactory progress, as the Department had implemented parts of the recommendation related to post-completion evaluations and monitoring of program outcomes for individual grants.

### Our audit findings

The Department has made significant progress, but is still in the process of establishing quantifiable performance measures and targets to evaluate the performance of its grant programs using the newly developed grant management system and framework.

Significant improvements had been made in reviewing and establishing performance indicators for grant programs.

In 2010, the Department formed a core evaluation team that developed a new grant management system. The Department formalized a plan to periodically review the grant programs and assess them against the Department's strategic objectives. Also, the Department developed a new reporting framework to link quantifiable performance measures and targets to its grant programs.

To fully implement this recommendation, the Department will have to demonstrate, through an entire business cycle, that it successfully used the new grant management system and framework to manage and evaluate the Department's grant program against pre-determined quantifiable criteria and the Department's objectives. The Department must also demonstrate that it can link quantifiable performance measures and targets to its grant programs.

# Agriculture Financial Services Corporation

## Matters from the current audit

## Lending controls

### Background

Agriculture Financial Services Corporation has a loan receivable balance of approximately $1.4 billion as of March 31, 2011. During fiscal 2011, AFSC authorized approximately 1,600 loans for a total value of approximately $400 million. Loans are provided to farmers and commercial businesses.

AFSC has designed and documented lending controls in their internal *Lending Policy Manual and Procedure Manual*. These controls are important as they ensure new loans are approved in accordance with their loan guidelines.

### Recommendation: lending controls

**8 RECOMMENDATION**

We recommend that the Agriculture Financial Services Corporation ensure its key lending controls operate as designed.

### Criteria: the standards for our audit

Management should consistently follow the lending controls identified in AFSC's *Lending Policy Manual and Procedure Manual*. Any deviation should be properly justified, documented and authorized.

### Our audit findings

**Key finding**

Key lending controls have not been applied consistently by management. Control deficiencies relate to loans disbursed before all conditions are met and inadequate file administration review.

## Lending controls not always followed

Control deficiencies were found in the following areas:

### Loan disbursements

All formal loan offer letters had contingent conditions and explicitly indicated these conditions must be met before the disbursement of any funds.

We noted several instances where the funds were partially disbursed to borrowers before all contingent criteria were met. In all cases, there was not enough documentation in the paper or electronic file explicitly indicating the business rationale for partial fund disbursement before all contingent conditions were met.

### File administration

Weaknesses existed in file administration. For example, one loan file had three different versions of the final offer letter. The version with the borrower's signature was not the final version. In other cases, the offer letter did not offer life insurance, as required in AFSC's *Lending Policy Manual and Lending Procedure Manual*.

### Loan file review

All new loans and loan amendments are subject to an independent review of the loan application process and amendment process to ensure compliance with loan eligibility, policy and procedures. We found one loan file and one loan amendment file that had no documented evidence of this review.

### Implications and risks if recommendation not implemented

Failure to ensure consistent compliance with key lending controls may put AFSC at undue risk. Loans that do not follow AFSC's loan policies may be inappropriately disbursed.

## AgriStability accrual processes

### Background

The indemnities payable amount in AFSC's financial statements for the AgriStability, AgriInvest, AgriRecovery and related programs is a significant management estimate. The total accrual as of March 31, 2011 for these programs is approximately $310 million. The accrual includes estimates of claims payable for (i) the claim year 2010 and (ii) the claim year of 2009 and prior years. Because the AgriStability program allows for the 2010 claims to be received up to September 30, 2011, the vast majority of claims would not have been received as of March 31, 2011. AFSC uses a statistical federal model run by Agriculture and AgriFood Canada to estimate the claims payable for the 2010 claim year. The estimates for the 2009 claim year and prior years are based on AFSC internal calculations.

### Recommendation: AgriStability accrual process

**9 RECOMMENDATION**

We recommend that the Agriculture Financial Services Corporation ensure its procedures to develop the AgriStability accrual are properly documented and reviewed.

### Criteria: the standards for our audit

AFSC should:

- review and document the inputs, calculations, basis of estimates and assumptions
- document procedures used to develop the AgriStability accrual

### Our audit findings

**Key finding**

The accrual process, key inputs and factors used by management to establish the estimates for the AgriStability accrual have not been properly documented and reviewed.

#### Estimates for 2010 claim year using the federal model

AFSC uses the statistical model run by Agriculture and AgriFood Canada to determine the total indemnities payable under the AgriStability program for the current program year. AFSC provides AAFC's forecasting division with data it uses to estimate the AgriStability payments, including detailed participant information and insurance indemnities estimates.

*Detailed participant information*—These data include the prior year's information for the number of producers in the province, eligible income and expenses under the program, production margins and tax information. AFSC produces this information internally and informally reviews it for validity. There is no formal signoff of this review before submission to AAFC.

#### Estimates for the 2009 claim year and prior years

For the 2009 and earlier claim years, an accrual is done estimating the remaining payments for each claim year.

AFSC has a process to develop and review the accrual calculations. However, we found:

- There are no documented procedures describing how to complete this accrual calculation, including developing various assumptions, for example, prior year revision rates.
- There was no documented support for key inputs into the accrual or documented evidence of review.

### Implications and risks if recommendation not implemented

The absence of proper procedures to review and document the accrual estimation process and key inputs and factors used in the process increases the risk of material misstatement of the accrual at year-end.

## Matters from prior-year audits

### Specific loan loss allowance—implemented

#### Background

In our *October 2010 Report* (page 122), we recommended that AFSC improve the effectiveness of processes to determine the specific loan loss allowance on impaired loans.

#### Our audit findings

Management has revised its method for calculating loan loss allowances. We reviewed this method during the interim audit and identified no issues.

During the year-end audit, we performed recalculations of the specific loan loss allowances using AFSC's new method. We found the specific loan loss was calculated using the new method. Additionally, we found that loans included in the specific loan loss allowance were selected using the new method.

We conclude that AFSC has implemented the specific loan loss allowance method.

### Loan loss allowance methodology and process—implemented

#### Background

In our *October 2007 Report* (vol. 2—page 32), we recommended that AFSC improve its loan loss methodology and process by:

- developing guidelines to assess which loans are impaired
- incorporating historic loan loss experience
- periodically updating data used in the methodology

Guidelines to assess loan impairment and periodic data updates within the methodology were implemented in 2008 and 2010, respectively.

### Our audit findings

Management has revised its method for calculating general and specific loan loss allowances. We reviewed this loan loss method during the interim audit and identified no issues.

During the year-end audit, we performed recalculations of the general and specific loan loss allowances using AFSC's new method. No issues were identified.

We conclude AFSC has improved its general and specific loan loss allowance method.

## Cross compliance review—satisfactory progress

### Background

In our *October 2010 Report* (no. 12—page 123), we recommended AFSC improve its processes for conducting compliance audits and investigations by:

- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations group
- improving the coordination between PCCI and program areas

### Criteria: the standards for our audit

AFSC should have effective processes for conducting compliance audits and resolving issues between the program areas and PCCI.

### Our audit findings

AFSC introduced new policies and procedures that management plans to monitor next year to ensure the planned benefits are actually achieved.

AFSC developed and approved the following policies and procedures:

- *Program Cross Compliance and Investigation Mission and Mandate*
- *Collection and Legal Action Policy*
- *Holding of Claim Payments Policy*
- *Program Cross Compliance and Investigation Authority Document*
- *Business Risk Management Programs File Referral to Program Cross Compliance and Investigation Policy*

AFSC also reorganized the Risk Management Area in October 2010, and now has distinct areas overseeing the operations (Income Stabilization and Insurance) and Risk Management Services (actuarial services, policy, program development and project management, and program cross compliance and collections).

To fully implement this recommendation, AFSC needs to clearly demonstrate the policies and procedures noted above lead to better coordination between PCCI and program areas over the next year.

### Implications and risks if recommendation not implemented

Without improved coordination between PCCI and the program areas, inefficiencies may occur in compliance reviews and follow-up.

# Alberta Livestock and Meat Agency Ltd.

## Matters from the current audit

## Enterprise risk management

### Background

Enterprise risk management is a continuous, proactive process to understand, manage and communicate risk from an organization-wide perspective. Risk management involves assessing the risk of uncertain outcomes, ranking them based on likelihood and potential impact on the organization, and then implementing appropriate responses to mitigate significant identified risks.

A risk assessment should consider industry and regulatory factors, environmental laws and regulations, economic indicators, industry trends, business relationships, and fraud and error.

### Recommendation: enterprise risk management

**10 RECOMMENDATION**

We recommend that the Alberta Livestock and Meat Agency Ltd. improve its risk management processes.

### Criteria: the standards for our audit

A risk assessment should be documented and updated regularly.

Effective risk management should include:

- clearly defining roles and responsibilities for risk management
- identifying and documenting the risks associated with achieving the entity's objectives
- assessing and ranking risks, including the likelihood and potential impact of specified risks
- developing and implementing programs or procedures to mitigate risks
- updating risk assessment as changes occur
- monitoring and evaluating risks and the steps to take to mitigate them
- reporting the risks and actions to the Board

### Our audit findings

**Key finding**

The Alberta Livestock and Meat Agency Ltd. does not have a formal and comprehensive risk management process.

ALMA has identified and reported on several risks as part of its business planning process. Its business plan includes an evaluation of risk exposure and mitigating strategies that management will use to monitor or manage the risks.

Various committees at ALMA meet throughout the year and report to the Board on identified risks. This includes reporting on programs, services, governance, human resources, market access, finance and strategic planning. For example, periodic financial reporting to the Board illustrates the impact on the organization of the financial risks identified in the business plan.

While ALMA has various processes in place to address risks, it would benefit from bringing them together into one cohesive risk management process. This would allow senior management and the Board to better rank responses to risks and see the interrelationships among risks.

ALMA's accountability framework includes some components of a good risk management process, but it could improve by:

- establishing a formal risk assessment process to identify, prioritize, document and report on all significant risks faced by ALMA, relevant to its objectives
- determining a risk response strategy, risk mitigation and action plans and clearly assigning responsibility for managing identified risks
- monitoring the progress of risk mitigation and reporting to the Board on the impact of identified risk and effectiveness of its mitigation strategies

A more comprehensive, formal risk management process will help ALMA determine if it has adequate controls and processes to mitigate risk.

### Implications and risks if recommendation not implemented

Without a formal process to identify and manage risk, ALMA may not mitigate all significant risks and may focus resources on less significant issues.

## Signing of service contracts

### Background

ALMA enters into hundreds of contracts and purchase orders for services each year. ALMA's purchasing policies require the appropriate expenditure officer and contractor to sign service contracts before any work begins. This ensures that ALMA and the contractor have agreed to the terms and conditions of the services the contractor will provide. This also reduces the risk that ALMA would be charged for services not agreed on. ALMA's purchasing policies require the use of its general service contract template for services

valued at $2,500 or more, and allow for the use of a direct purchase order for services valued under $2,500.

## Recommendation: compliance with contracting procedures

**11 RECOMMENDATION**

We recommend that the Alberta Livestock and Meat Agency Ltd. ensure compliance with its contracting procedures.

## Criteria: the standards for our audit

The appropriate expenditure officer should review and approve the terms and conditions of service contracts before work begins.

## Our audit findings

**Key finding**

Contrary to ALMA's contracting procedures, contracts were not always signed before their effective date.

We found sufficient appropriate documentation of the services we sampled. This included clear identification of the selected contractors, vendor information, description of purchased services and period purchased services would cover.

However, contrary to ALMA's procedures, we noted several instances where management signed the contracts between 20 to 40 days after the effective date of the contracts.

## Implications and risks if recommendation not implemented

When service contracts are signed after work begins, there is an increased risk that ALMA may be charged for services not agreed on.

# Education

## Summary of our recommendation

### Department

The Department of Education should strengthen its processes to consolidate school jurisdiction financial statements—see below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendation

### Department

### Matters from the current audit

### Line-by-line consolidation process

#### Background

In 2009–2010, the Department consolidated the financial information of 76 school jurisdictions into the Ministry of Education's financial statements on a line-by-line basis. Prior to 2009–2010, school jurisdictions, like all other schools, universities, colleges and health authorities' (SUCH) sector entities, were consolidated into Ministry financial statements using the modified-equity method.[1]

The Department consolidates the finances of school jurisdictions using information from the jurisdictions' audited August 31 financial statements. It then adjusts this information to account for significant transactions over the subsequent seven months and to align with government accounting policies and reporting standards. Management relies on information reported by school jurisdictions, as well as its own records of funding provided to the jurisdictions. The Department has developed a consolidation model to identify the significant transactions that occur in the seven-month period between the jurisdictions' August 31 year-end and the Ministry's March 31 year-end. This change has made the process of preparing the Ministry's financial statements more complex. Management has had to exercise more judgement and develop new processes to carry out the consolidation.

In our previous audit, we agreed with the Department's approach to obtaining and assessing information from this seven-month period after the school jurisdictions' year-ends. Significant transactions that may require adjustment in the Ministry's consolidated financial statements include accrued teacher payroll, salary increases, capital asset additions and grant advances.

#### Recommendation: consolidation processes

**12 RECOMMENDATION**

We recommend that the Department of Education improve its processes to consolidate the financial information of school jurisdictions into the Ministry of Education's financial statements.

#### Criteria: the standards for our audit

The Department should define well-designed and effective processes to:

- identify and determine significant transactions that warrant adjustments
- document assumptions used to develop significant stub period adjustments
- periodically review and validate the underlying assumptions
- document the procedures it uses to prepare consolidation journal entries

#### Our audit findings

**Key findings**

- Department processes for quality control review of consolidation working papers and updating and testing key assumptions used in its consolidation model are weak
- Department spends too much time on insignificant adjustments

1 Consolidated financial statements prepared using the modified-equity method of consolidation record only net assets and changes in net assets of school jurisdictions

Quality control review of the consolidation working papers should be improved. We observed that the consolidation working papers did not show evidence of review or approval by someone other than the preparer.

The Department made a $49 million error in the 2009–2010 consolidation. This error was not detected by either management processes or the audit. Management corrected this error during the 2010–2011 audit. If left uncorrected, the error would have understated operations and maintenance expense by $49 million in 2009–2010 and overstated this expense by $49 million in the current year.

Through discussion with Department staff, we found that a cash flow assumption used to calculate the infrastructure maintenance and renewal grant expense was no longer valid due to a change in timing of the grant payments. The Department had not evaluated the impact of this change on its consolidation methodology.

The Department makes over 50 adjustments to account for transactions between the jurisdiction's August 31 year-end and the Department's March 31 year-end and to adjust school jurisdictions' accounting policies to those used by the Ministry. While this makes the consolidated information more precise, it also increases the complexity of the consolidation process. Some of the adjustments are for relatively small amounts; it is not clear that these adjustments provide additional, useful information to readers of the Ministry's consolidated financial statements. To streamline the consolidation process, the Department should develop criteria to determine which adjustments are significant to the Ministry.

The Department is under significant time pressure to meet the year-end financial reporting deadline. We noted that Department staff worked considerable overtime completing the working papers and responding to audit queries.

The Department has adequate procedures in place to review school jurisdictions' audited financial statements to obtain assurance that those statements are reliable. The Department's process includes reviewing the school jurisdictions' audit reports and management letters, variance analysis, reconciliation of unaudited schedules with audited financial statements and reconciliation of grant revenue reported by school jurisdictions with its own records of granted funding. This information forms the basis of the line-by-line consolidation.

### Implications and risks if recommendation not implemented

In the absence of effective consolidation processes, there is an increased risk of errors not being detected and corrected, which may lead to material error in the Ministry's financial statements. The Department may also incur excessive time and costs in preparing the Ministry's consolidated statements.

## Review of school jurisdiction audited financial statements and management letters

### Background

In accordance with Section 19(4) of the *Auditor General Act* we report on our review of school jurisdiction audited financial statements and management letters.

We audit one of the school jurisdictions. For all other school jurisdictions, we review the management letters of their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors tell management about weaknesses that come to their attention when auditing the financial statements. We also review the auditors' reports on the financial statements.

### Our audit findings

Under Section 151 of the *School Act*, school jurisdiction auditors shall send management letters, auditor's reports and audited financial statements to the Minister by November 30 of each year. By the end of January 2011, one school jurisdiction

audit was still in progress (Northland School Division No. 61). Consequently, our audit findings are based on results for 76 of the 77 school jurisdictions.

**Auditors' reports**—of the 76 school jurisdictions, two school jurisdictions (Almadina School Society and Mother Earth's Children's Charter School Society) received a qualified auditor's report for the year ended August 31, 2010. The reports were qualified because the auditors were unable to verify the completeness of revenue from school-generated funds and the completeness of revenue from hot lunches provided to students.

All other school jurisdiction auditors reported that the 2010 financial statements were prepared in accordance with Canadian generally accepted accounting principles.

**Financial statements**—of the 76 school jurisdictions, 39 school boards and 9 charter schools, incurred annual operating deficits for the year ended August 31, 2010 (2009—20 school boards and 5 charter schools). Annual operating deficits are acceptable to the Department as long as jurisdictions have sufficient accumulated operating surpluses available to cover the shortfall. Two jurisdictions reporting annual operating deficits, Canadian Rockies Regional Division No. 12 and Palliser Regional Division No. 26, did not have sufficient accumulated surpluses to cover their annual operating deficits.

School jurisdictions with accumulated operating deficits are expected to work with the Department to eliminate the accumulated operating deficit in accordance with a Minister-approved deficit elimination plan. The Department is reviewing the nature of the accumulated operating deficits of these new accumulated deficits and is working with the jurisdictions to eliminate the deficit.

The total annual operating deficit of these 76 school jurisdictions combined was $13.6 million for the year ended August 31, 2010 compared with an operating surplus of $15.5 million for the same school jurisdictions for the year ended August 31, 2009. The total accumulated operating surplus for these 76 jurisdictions decreased from $358 million at August 31, 2009 to $325 million at August 31, 2010. This decrease is attributable to jurisdictions using operating reserves to acquire capital assets and to transfers to capital reserves.

**Management letters**—Following is a summary of the audit findings and recommendations reported to 76 school jurisdictions by their auditors for the year ended August 31, 2010. This summary also includes recommendations to Northland School Division No. 61 for the year ended August 31, 2009. We have grouped our summary into the following categories:

- financial reporting and governance
- internal control weaknesses
- information technology management

Users of this summary should keep in mind that the audits from which these findings came were not designed to assess all key control and accountability systems.

**Financial reporting and governance**

a) **Accounting issues**—22 jurisdictions (including 6 of the 18 reported in 2009) need to resolve accounting issues relating to non-monetary transactions, proper recording, reviewing and reconciling of journal entries, recording school-generated revenue and recording of capital grants due but not received.

b) **Board approval**—3 jurisdictions (including 0 of the 7 reported in 2009) need to ensure that board approvals are obtained for such matters as the amount of net assets to restrict, plans to spend school-generated funds, board minutes and superintendent expenses.

c) **Board oversight**—3 jurisdictions (including 1 of the 2 reported in 2009) need to ensure that the board appoints management with financial expertise to discharge the responsibility of financial oversight and the board receives timely information in areas such as monthly financial statements and progress on issues in the auditor's management letter to maintain and strengthen overall stewardship.

d) **Budgetary process**—4 jurisdictions (including 0 of the 2 reported in 2009) need to improve their budgetary processes.

e) **Internal audit**—1 jurisdiction (0 reported in 2009) needs to consider establishing an internal audit function.

f) **Review of financial information**—8 jurisdictions (including 2 of the 7 reported in 2009) need to improve their review of financial information such as bank reconciliations, journal entries, monthly financial statements and variances between budget and actual expenditures.

g) **Timeliness of financial recording**—4 jurisdictions (including 0 of the 5 reported in 2009) need to ensure accounting transactions, accruals, receivables statements or financial statements are prepared or recorded on a regular and timely basis.

**Internal control weaknesses**

a) **Cash management**—17 jurisdictions (including 10 of the 18 reported in 2009) need to improve cash management processes and controls.

b) **Capital assets**—10 jurisdictions (including 5 of the 14 reported in 2009) need to improve the recording and tracking of capital assets.

c) **Goods and Services Tax**—4 jurisdictions (including 2 of the 6 reported in 2009) need to review their processes for recording GST and remitting GST returns.

d) **Payroll**—18 jurisdictions (including 7 of the 18 reported in 2009) need to improve controls over the accuracy of and access to payroll information.

e) **Policies and procedures**—11 jurisdictions (including 4 of the 13 reported in 2009) need to update or implement formal procedures and policies.

f) **Purchases**—9 jurisdictions (including 2 of the 12 reported in 2009) need to improve controls over the purchase cycle, such as review and authorization processes over purchases and payments, employee sign-off for goods received and retention of supporting documentation.

g) **Segregation of duties**—9 jurisdictions (including 3 of the 9 reported in 2009) need to segregate duties over authorization and recording of transactions or custody of and accounting for certain assets.

h) **School generated funds**—18 school jurisdictions (including 5 of the 7 reported in 2009) need to improve the processes used to collect, record, spend and report school-generated funds.

**Information technology management**

a) **Computer security**—15 jurisdictions (including 6 of the 11 reported in 2009) need to improve computer security processes by introducing unique individual usernames and passwords, implementing a mandatory password change policy, backing up data at an offsite location and developing a business continuity plan and a disaster recovery plan.

b) **Change management**—1 jurisdiction (not the one reported in 2009) needs to implement formal, documented procedures for managing and testing changes to system and network software or hardware.

**No recommendations**

For the year ended August 31, 2010, 19 management letters issued to school jurisdictions did not contain recommendations. This compares with 19 for the year ended August 31, 2009.

The Department contacts jurisdictions, where necessary, to encourage them to deal with the issues raised in the management letters, particularly recommendations repeated from prior years.

# Employment and Immigration

## Summary

### Department

We completed the follow-up systems audit work on the Homeless Eviction Prevention Fund—see below.

The Department of Employment and Immigration has implemented our October 2009 recommendations to:

- improve the processes of its fraud investigation units—see below
- develop timelines and strategies to respond to findings from internal audits and use a risk-based approach to augment the random sample selection method used for internal audits and home visits—see page 86

Restructuring of the HEP Fund in April 2009 resulted in a transfer of responsibility for most of the program to the Department of Housing and Urban Affairs. The recommendations from our *October 2009 Report* and our follow-up work did not include an examination of the portions of the HEP Fund that were transferred from the Department.

### Workers' Compensation Board

The Workers' Compensation Board implemented two recommendations to:

- restrict computer system access to appropriate staff—see page 87
- formalize security monitoring procedures to detect threats to critical information systems in a timely manner—see page 87

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

#### Matters from prior-year audits

#### Homeless Eviction Prevention Fund systems audit follow-up

The recommendations from our *October 2009 Report*, and our follow-up work did not include an examination of the portions of the HEP Fund that were transferred from the Department.

The Department continues to provide emergency damage deposit and emergency eviction prevention funds with its Income Support program. The recommendations we report on below relate to these responsibilities.

#### Fraud investigation processes—implemented

**Background**

In 2007, the Alberta Affordable Housing Task Force recommended introducing a Homeless and Eviction Prevention Fund to assist low-income Albertans who were at risk of losing their homes due to rent increases or rent arrears, as well as to help those who needed support to establish a new residence.

In our *October 2009 Report* (page 186), we recommended that the Department improve the processes of its investigation units by:

- defining clear objectives for investigation units
- establishing guidelines for determining when they should undertake a fraud investigation
- providing fraud-specific training for investigation unit staff

**Our audit findings**

The Department has implemented this recommendation.

### Defining clear objectives for investigation units

The Department has established clear objectives for its investigation units. A new policy requires staff to investigate suspected or alleged misconduct against the Department's programs and services. The policy also outlines procedures for:

- assessing complaints
- initiating and conducting investigations
- assessing case dispositions

### Establishing guidelines for determining when to investigate fraud

The Department has developed a tool for determining when fraud investigations are required and for setting investigation priorities. Department employees use the tool to evaluate each potential case by assigning points based on established criteria. If the aggregate points for a case meet a certain threshold, they initiate an investigation. The tool also provides guidance on administrative actions employees could take when the threshold is not met. Our testing showed that employees are using the prioritization tool appropriately to identify cases for investigation.

### Providing fraud-specific training for investigation staff

Investigators, assistant investigators, supervisors and managers attended the Department's fraud investigation training for regional fraud investigation teams. The Department plans to hold similar sessions for employees who are new to investigation units, and others that may wish to attend.

## Internal audits and home visits—implemented

### Background

In our *October 2009 Report* (page 189), we recommended that the Department improve its processes by developing:

- timelines and strategies to respond to findings from internal audits
- a risk-based approach to augment the random sample selection method used for internal audits and home visits

### Our audit findings

The Department has implemented this recommendation.

### Timelines and strategies to respond to findings arising from internal audits

Internal audit performs annual audits of its income support program and presents its findings to regional managers responsible for the program. As part of their response to internal audit findings and recommendations, regional managers must indicate how they plan to fix the deficiencies noted, and the time within which they will act.

Six months after receiving the internal audit report, regional managers must report to the internal audit unit on the status of the audit recommendations. As part of the annual audit, the internal audit unit uses this report to follow up on the status of audit recommendations.

### A risk-based approach to augment selection methods for internal audits and home visits

Internal audit identifies potential audit risks through discussions with regional managers and uses this input to prepare an annual audit plan. The audit plan forms the basis on which internal audit identifies audits for the year.

The regional managers directly oversee the Department's programs and their input helps ensure the audit plan incorporates potential audit risks. Ongoing communication between regional managers and the internal audit unit ensures that the audit plan reflects the risks identified.

The HEP Fund policy previously required investigators to conduct random home visits to verify occupancy and landlord information. Under the Income Support program, investigators conduct home visits based on complaints received.

## Workers' Compensation Board

### Matters from prior-year audits

### Computer systems access—implemented

#### Background

In our *October 2010 Report* (page 136), we recommended that Workers' Compensation Board ensure that access to computer systems is restricted to appropriate staff.

#### Our audit findings

In 2010, WCB implemented an annual review of access to its core computer systems. The user area manager responsible for each application receives a list of people with access to the relevant computer systems and their assigned job and role. The manager is required to review this list annually and either confirm that the staff should continue to have access or direct information technology to make required changes.

The annual review is a good control to ensure that access is restricted to appropriate staff. It works with WCB controls over granting access to computer systems and removing access when staff terminate or transfer.

### Access and security monitoring—implemented

#### Background

In our *October 2009 Report* (page 192), we recommended that WCB formalize its security monitoring procedures to ensure that it can detect security threats to critical information systems in a timely manner.

In 2009, WCB approved an information security event logging and monitoring standards document that describes how it will monitor security events on its information systems. The WCB also initiated a project to implement an automated tool to monitor high-risk systems.

#### Our audit findings

WCB has now implemented a security and information event management tool to collect and analyze security events in its computing environment. The tool sends out security alerts if it detects suspicious events. The tool collects and monitors information from WCB's critical information systems.

WCB has also developed a security incident response guide. Critical security alerts are logged as incidents with the help desk management software. WCB staff investigate the incidents and ensure they are resolved.

# Energy

## Summary of our recommendations

### Department

The Department of Energy should improve its controls over how it estimates bitumen royalty and natural gas royalty revenue—see below.

The Department has implemented our recommendation to ensure effective processes are in place to manage potential conflicts of interest—see page 90.

The Department has implemented our recommendation to improve its processes for preparing financial information and has made satisfactory progress with our recommendation to improve controls over the revenue forecast system—see page 91.

### Energy Resources Conservation Board

The Energy Resources Conservation Board has implemented our recommendation to develop and use an information technology framework—see page 92.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendation

### Department

### Matters from the current audit

### Improving processes to recognize royalty revenue estimates in the financial statements

#### Background

There is a delay from the time when oil and gas production occurs and producers send information to the Department and when the Department calculates and bills oil and gas companies for royalties. Therefore, when preparing its financial statements the Department must prepare an estimate of royalty revenue for oil and gas production that has not yet been calculated and billed at the fiscal year-end.

To prepare a reasonable estimate of bitumen royalty revenue, the Department incorporates a number of elements. These include price estimates, provisions in agreements that affect royalties, and revenue and cost information received from oil sands producers. The natural gas royalty estimate includes components such as production, price, cost adjustments and rates established through various royalty programs. Thus, the Department calculates a number of specialized estimates, which it then combines to prepare overall estimates of both bitumen and natural gas royalty revenue.

The Department's estimates for bitumen and natural gas royalty revenue are complex and are material to the financial statements. Material amounts are any amounts that, individually or together, might influence the Ministry and Department's decisions.

#### Recommendation: improving processes to recognize royalty revenue estimates in the financial statements

**13 RECOMMENDATION**

We recommend that the Department of Energy improve its controls for:

- using consistent methods to calculate bitumen royalty estimates
- conducting timely reviews of the calculations used to estimate natural gas royalty revenue

#### Criteria: the standards for our audit

The Department should follow effective, consistent processes for estimating royalty revenue.

### Our audit findings

**Key finding**

The Department did not use methods consistently to estimate bitumen royalty revenue and did not review its natural gas royalty cost allowance estimate in a timely manner.

#### Bitumen royalty estimate method

The Department uses Royalty Amending Agreements to determine royalties for two oil sands producers and uses the terms of the agreement to estimate royalty revenue from the bitumen produced. The Department used a March estimate of bitumen prices to calculate the adjustment to royalty revenue resulting from the agreements. However, other calculations prepared for the Department's overall bitumen royalty estimate used actual prices for March. For the overall estimate to be as consistent and accurate as possible, the Department should use the most recently available actual price as the basis for estimating royalty revenue and for estimating the royalty adjustments for bitumen. The difference between the estimated and actual prices resulted in a $36 million overstatement of bitumen royalty revenue. The Department corrected the misstatement.

The Department also adjusted its estimate to reflect actual March revenue and cost information received at the end of April 2011. However, for a few oil sands projects, the Department did not use the updated information and, therefore, did not apply a consistent approach to its estimate of royalty revenue. The impact of not using this updated information was a $17 million understatement of bitumen royalty revenue. The Department corrected the misstatement.

#### Timely review of information used to estimate gas royalty revenue

One week before approving its financial statements, the Department reviewed historic cost data used in the calculation of cost allowance estimates. The cost allowance estimate is a significant component of the overall natural gas royalty revenue estimate. This review identified an error that overstated royalty revenue by $382 million. The Department subsequently adjusted this overstatement of revenue. The supporting information for the estimate was available by March. However, the review of the calculations did not occur until the end of May.

### Implications and risks if recommendation not implemented

Because estimates form a significant component of the Department's calculation of royalty revenues in its financial statements, if assumptions and calculation methods are inconsistent, and review of information supporting the estimates is not timely, the risk of financial misstatement is increased.

## Matters from prior-year audits

### Documenting potential conflicts of interest—implemented

### Background

In our *April 2008 Report* (page 57), we recommended that the Department follow its policies and processes by ensuring it clearly documented discussions, conclusions and risk mitigation when an employee declared a potential conflict of interest. We also recommended that the Department ensure it keeps this documentation on the employee's file.

### Our audit findings

We examined the Department's compliance with its policies and processes for identifying and managing conflicts of interest. We examined the personnel files of all Department senior management employees to verify that conflict of interest disclosure forms were submitted, as well as a sample of other Department employees that disclosed potential conflicts under the Department's policies.

Based on our examination, we found that all non-conflict certification forms were appropriately documented and retained by Human Resources. For employees where a conflict disclosure form was filed, we found proper documentation of follow-up discussions and conclusions. Based on our analysis of the documentation and conclusions,

we found the rationale and supporting information to be reasonable and appropriate. We also noted that the Department received all required employee documentation in an appropriate timeframe, and that the Department followed up promptly as necessary.

## Improving processes to prepare financial information—implemented

### Background

In our *October 2009 Report* (page 197), we recommended that the Department improve:

- internal communication processes between its finance branch and program staff
- quality control processes for preparing working papers and financial statements

In our *October 2010 Report* (page 141), we concluded that quality control processes over the financial statements had improved. However, improvement was still needed around the communication between the finance branch and program areas.

### Our audit findings

The Department has implemented more defined timelines for program areas to submit the supporting information needed to prepare financial statements. Overall, the communication between the finance branch and program areas has improved. Accountability mechanisms and expectations have been established.

## Improving controls over the revenue forecast system—satisfactory progress

### Background

In our *October 2009 Report* (no. 21—page 199), we recommended that the Department improve its controls over and documentation of the revenue forecast model, to help ensure continued accuracy of the forecast system. In our *October 2010 Report* (page 141), we assessed that the Department had strengthened its controls over data input and change management. However, we noted that further improvements were needed to how it documented the model.

### Criteria: the standards for our audit

The extent of documentation and control over applications used to prepare the forecasts should be commensurate with the complexity of information and its impact on the financial statements.

### Our audit findings

The Department continues to improve how it documents its forecasting processes. We found documentation that clearly outlined its method for estimating the drilling royalty credit, a royalty program previously not included in the forecasting model documentation. We also noted that the Department improved other elements in the model, including the clarity of the methodology and logic behind various inputs.

However, we identified a number of components in the forecast model that were still not adequately described, or not described at all, in the documentation. For example:

- The method for estimating the new well royalty rate was not included in the forecast model documentation.
- The methods of forecasting revenue from smaller programs are not outlined in the documentation. These programs are individually less significant, but their total effect on revenue is not. The programs include the emerging technologies royalty rate, otherwise flared solution gas, injection credits, acid gas, raw gas adjustment and the enhanced oil recovery operating cost adjustment.

Thus, while the Department has improved its documentary support for the assumptions, logic and methods of many of the variables in the forecast model, there are still a number of inputs the Department needs to include in its documentation.

### Implications and risks if recommendation not implemented

Employees may not be able to obtain sufficient knowledge to effectively process the forecast calculations or maintain the forecasting model.

# Energy Resources Conservation Board

## Matters from prior-year audits

### IT control framework—implemented

#### Background

In our *October 2007 Report* (vol. 2—page 71) we recommended that the Energy Resources Conservation Board implement an IT control framework to mitigate its identified risks. ERCB management agreed to conduct a risk assessment and use an IT control framework.

During our 2009–2010 audit, we confirmed that the ERCB had adopted and implemented an IT control framework, but hadn't completed a program to develop and implement policies, procedures and standards to support its control framework.

#### Our audit findings

The ERCB has fully implemented this recommendation. During the 2010–2011 audit, the ERCB demonstrated that it has implemented:

- security policies, procedures and standards that support the control framework
- control activities to help ensure its IT control framework requirements are met

# Environment

## Summary

### Department

With respect to the Climate Change and Emissions Management Fund, the Department of Environment has implemented our recommendation that it clarify which regulatory expenses the Fund can pay—see page below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

### Matters from prior-year audits

### Administrative payments made from the Climate Change and Emissions Management Fund—implemented

#### Background

In our *October 2010 Report* (page 144), we recommended the Department clarify the kind and extent of regulatory expenses that can be paid out of the Fund.

#### Our audit findings

This recommendation has been implemented. The Department obtained approval from its Deputy Minister to pay verification costs out of the Fund. The Department amended the agreement with the Climate Change and Emissions Management Corporation to enable the use of funds for this purpose.

# Finance and Enterprise

## Summary of our recommendations

### Department

The Department of Finance has implemented four recommendations related to:

- obtaining assurance on third party service providers—see below
- financial reporting processes—see page 96
- annual report preparation quality control processes—see page 96
- contract agreements—see page 96

On page 25 we also report four other recommendations the Department implemented in our revenue forecasting follow-up.

### Alberta Investment Management Corporation

We make two new recommendations to the Alberta Investment Management Corporation to:

- improve the controls over its investment risk IT system—see page 97
- improve controls over recording investment management revenue from cost recoveries—see page 99

We report that AIMCo has implemented three other recommendations related to:

- access controls—see page 100
- coordination with Department of Finance and Enterprise—see page 100
- AIMCo financial statements—see page 101

### Alberta Pensions Services Corporation

Alberta Pensions Services Corporation designed and implemented an IT risk and control framework to ensure that control procedures were designed, implemented and operating effectively for high-risk areas—see page 101.

### ATB Financial

We make a new recommendation to ATB Financial to confirm the key controls in the new banking system are implemented and operate effectively—see page 102.

ATB implemented our recommendation to promptly update derivative credit limits—see page 103.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendations

### Department

### Matters from prior year audits

### Obtaining assurance on third party service providers—implemented

#### Background

In our *October 2007 Report* (vol. 2—page 87), we recommended the Tax and Revenue Administration division of the Department of Finance, ensure that controls over Department information assets hosted or administered by service providers are documented and operating effectively.

In 2009, we reviewed the details of the contract between the Department and an outsourced service provider. The contract included service level, security and contractual obligations that the service provider must meet.

In 2010, we reviewed TRA's documentation for a service assurance process that would ensure contractual obligations with the service provider were consistently met.

#### Our audit findings

In 2011, the Department informed us it had changed the contract with the service provider to reflect the Department's contracting of the service provider's staff as opposed to the service provider's outsourced services.

The changes resulted in the service provider:

- not having direct access to or control of Department data
- providing their staff to work onsite at the Department, with Department assets, and under direct Department supervision

Through inquiry and observation, we confirmed the changes to the contract were implemented. As the service provider no longer hosts or directly administers Department information assets, we now consider this recommendation implemented.

## Financial reporting processes—implemented

### Background

In our *October 2010 Report* (no. 16—page 150), we recommended the Department improve its year-end financial reporting processes because quality control and coordination of the preparation of the Ministry's financial statements was not sufficient.

### Our audit findings

Management took the following steps to improve year-end reporting:

- met with us throughout the audit to identify and resolve issues in a timely manner
- engaged a consultant to review its financial reporting processes
- prepared its pro-forma financial statements before year-end

We also observed evidence that management began implementing a project management system by designating one individual as project manager. Management also provided some documentation of a project plan that included key tasks and timelines. We also found management communicated with component entities such as ATB early to coordinate reporting requirements.

Overall, we found significant improvement in the quality of the draft financial statements we received compared with previous years. Prior year amounts had been accurately updated, and the formatting of the financial statements and notes was completed before year-end. Communication with management also improved. We were able to substantially complete year-end fieldwork within the agreed on timelines.

## Annual report preparation quality control processes—implemented

### Background

In our *October 2009 Report* (page 214), we recommended the Department improve its quality control processes over preparation of the Ministry annual report because we found numerous errors in the reproduction of the 31 sets of financial statements included in the annual report.

### Our audit findings

The Department made substantial improvements in coordinating the financial statements included in the Ministry annual report, which resulted in significantly fewer revisions required after our review.

## Contract agreements—implemented

### Background

In our *October 2009 Report* (page 216), we recommended the Department have signed contract agreements in place when contract work starts.

### Our audit findings

We tested a sample of consulting contracts and found that the Department has processes in place to obtain sufficient documentation and approval before contracted services are provided.

# Alberta Investment Management Corporation

## Matters from the current audit

### Investment risk IT system

#### Background

AIMCo manages approximately $68 billion of investments owned by Alberta endowment funds such as the Alberta Heritage Savings Trust Fund, public sector pension plans such as the Local Authorities Pension Plan, government funds such as the Alberta Sustainability Fund and other government entities.

For the year ending December 31, 2011, public sector pension plans will be adopting a new accounting standard from the CICA Handbook,[1] which requires quantitative disclosures in the financial statements of changes in market factors on investment portfolios. Some of the new disclosures were made in the public sector pension plan's December 31, 2010 financial statements, including the impact on the plan's investment portfolios to changes in foreign currency rates, interest rates and equity market indices. The information was calculated by AIMCo's investment risk IT system, therefore, we examined AIMCo's internal controls over the investment risk IT system.

AIMCo's investment risk IT system is an analysis tool used to estimate investment risk for an investment portfolio. Investment risk is the probability that the portfolio will not earn the expected investment return in the next year. AIMCo uses information from the investment risk IT system to help make investment decisions.

AIMCo also uses this system to estimate the effect of changes in market factors on client investment portfolios. The system values the client investment portfolios using financial models and internal assumptions. AIMCo uses the modelled portfolio to estimate the impact of typical market risks, such as an increase in interest rates, on the valuation of the portfolio.

AIMCo's initial configuration of the IT system included:

- selection of appropriate investment valuation models
- selection of appropriate data sets and data vendors
- selection of parameters to test the models for various market conditions
- comparisons of the system's calculated investment valuations to market-based valuations

The system's investment valuation models are upgraded as new types of investments are added to client portfolios.

The system retrieves data from AIMCo's investment database and from Bloomberg, a source of external financial data. The system's investment valuation models use the investment database and Bloomberg data to calculate the impact of changes in foreign currency rates, interest rates and equity indices on the valuation of client portfolios.

During the calculation process, the system models the valuation of each investment in AIMCo's portfolio and compares the modelled valuations with AIMCo's market-based valuations. The system alerts analysts when it detects differences between modelled and market-based valuations. The analysts in AIMCo's risk management group use their judgement to determine which differences to investigate.

#### Recommendation: investment risk IT system

**14 RECOMMENDATION**

We recommend that the Alberta Investment Management Corporation improve its controls over the investment risk IT system.

1 CICA (2011). *CICA Handbook—Accounting*, Section 4600, Pension Plans.

## Criteria: the standards for our audit

AIMCo should:

- maintain documentation of the configuration of the system
- regularly review appropriateness of the system's valuation models
- document its investment risk calculation processes and use of manual adjustments
- establish an error threshold for reprocessing calculations
- correct valuation errors in accordance with its error correction policy
- ensure the investment risk system meets its IT security and control standards, including user access and role security, password and authentication standards and change management

## Our audit findings

**Key findings**

- No detailed documentation of system configuration
- No process to review valuation models
- Risk calculation processes and manual adjustments not documented
- No threshold for adjusting errors

### Maintain documentation of the investment risk system

We found no detailed documentation of the configuration of the investment risk IT system. There are several choices of valuation models and data vendors for each type of investment. AIMCo should maintain documentation of which valuation models and data vendors it has chosen. AIMCo should also update the documentation for all changes to models and data due to system upgrades.

### Review valuation models

We found no process for a periodic review of the appropriateness of investment valuation models used in the system.

### Document risk calculations and manual adjustments

Management summarized its investment risk calculation process in a flowchart, but did not document the detailed processing steps. Analysts in the risk management group manually adjust risk calculations if no appropriate investment valuation model is available in the investment risk system. We found that management did not document the methods used to make manual adjustments in the system.

### Establish an error threshold for risk calculations

Management has configured the system to proceed with risk calculations if 97% of the investment data has been loaded into the system. The system models the valuation of the investments loaded in the system and compares the modelled valuations with the actual market-based valuation of each investment in AIMCo's portfolio. The system reports differences between the modelled and actual valuations, which may include model errors, incomplete data or errors in AIMCo's market-based valuations.

We found no evidence that management had completed an assessment to determine the most appropriate threshold for loading investment data or an acceptable threshold for valuation differences so that the accuracy of investment risk calculations is maximized.

### Correct valuation errors

Staff review the differences between the investment risk system's modelled valuations and actual market-based valuations and use their experience to decide which differences to investigate. We found no criteria to guide staff in this review. AIMCo's error correction policy requires that all errors greater than 15 basis points or over $5 million be corrected through a backdated adjustment. The policy does not include errors identified through the risk calculations. Therefore, the differences accepted by staff may include market-based valuation errors larger than 15 basis points or over $5 million.

We found no effective process to assess, document and correct errors identified through the risk calculations. We found no analysis of errors that should be accepted or corrected.

At December 31 and March 31, AIMCo makes backdated adjustments to update private investment valuations. We found that management had not considered if they should reprocess risk calculations after large backdated adjustments are made.

### Implement IT controls

Through review of general computer controls, we determined that AIMCo did not have effective controls to ensure that the system met its IT security and control standards. We noted that:

- user access reviews were conducted for the investment risk software, but did not include application or database administrator accounts and did not assess the appropriateness of each user's access
- AIMCo has an effective information technology change management process—However, it was unable to demonstrate that changes to the system were not made outside its change management process. We determined that users are able to make changes directly to investment valuation models and data sets and that these changes do not follow a set change management process.

### Implications and risks if recommendation not implemented

If AIMCo does not have processes in place to make sure its investment risk system is accurate, AIMCo and its clients might base their investment decisions on or prepare information used in financial statement disclosures using incomplete or inaccurate information.

## Revenue from cost recoveries

### Background

AIMCo operates on a cost recovery basis. It charges clients for the cost of managing their investments. These costs include internal costs, direct investment pool expenses and external management costs. In its financial statements, AIMCo reports these recovered costs as revenue. AIMCo uses investment pools to manage client investments.

AIMCo's internal costs include salaries, administration, rent and other overhead expenses. AIMCo recovers these costs through charges to its clients and investment pools. Internal costs charged to clients include operating costs for the Board of Directors, Chief Executive Officer's office, premises and other administrative departments. AIMCo allocates these costs to clients based on their share of AIMCo's total investments. Internal costs charged to investment pools include costs of the Chief Operating Officer's office, information systems and the cost of employees in the investment valuation group and other departments involved in investment operations. AIMCo allocates these indirect costs to investment pools primarily based on the investment pools' share of AIMCo's total investments.

Direct investment pool costs include asset administration, legal fees, trust company fees, accounting and other expenses. Direct pool costs are charged to the investment pools.

External management costs include management fees and performance fees. External investment managers base these fees on the fair value of net assets under management and net the fees against the investment income earned. AIMCo estimates these fees using the rates specified in the investment management agreements. External management costs are charged to the pools.

### Recommendation: AIMCo's revenue from cost recoveries

**15 RECOMMENDATION**

We recommend that the Alberta Investment Management Corporation reconcile its revenue from cost recoveries reported in its financial statements to the total fees it recovers from its clients and investment pools.

### Criteria: the standards for our audit

AIMCo should reconcile its revenue from cost recoveries recorded in its financial statements to the total fees it recovers from its clients and investment pools.

### Our audit findings

**Key finding**

Reconciliation of costs recoveries to fees charged not completed

Our audit of AIMCo's internal, direct investment pool and external investment costs provided evidence that the revenue from cost recovery is materially correct in AIMCo's financial statements. However, management does not complete a reconciliation of AIMCo's revenue from cost recoveries to the total fees charged to clients and investment pools for the year. As a result, management was unable to satisfy us that AIMCo accurately charged clients and investment pools for its investment management services during the year.

### Implications and risks if recommendation not implemented

Without a good process to record revenue from cost recovery, AIMCo may be over- or under-charging its clients for investment services.

## Matters from prior-year audits

## Access controls—implemented

### Background

In 2004, we recommended that AIMCo (then Alberta Investment Management in the Department of Finance) establish a documented security plan for its investment-related computer information systems, including access and change management components.

In our *October 2007 Report* (vol. 2—page 93), we separated the access and change management aspects out of the overall security plan recommendation and made a new recommendation to establish access and change management controls for its investment-related computer information systems.

In 2009, we confirmed that AIMCo developed and implemented a change management process.

### Our audit findings

In 2011, we confirmed that AIMCo's processes to request, grant and regularly review user access to systems and applications were operating effectively. The recommendation has been implemented.

## Coordination with Department of Finance—implemented

### Background

In our *October 2009 Report* (page 235), we recommended that AIMCo work with the Department to:

- record all financial statement accounting adjustments in its investment general ledger on a timely basis
- coordinate the timing of private investment valuations so that valuation updates to the investment general ledger are entered before the Department performs its quarterly write-down analysis

The Department uses information from the investment general ledger to prepare financial statements for endowment funds, pension plans and other entities.

### Our audit findings

AIMCo has implemented the recommendation by:

- meeting regularly with the Department to discuss and resolve accounting issues. It developed a framework to improve communication with the Department about such matters as accounting and valuation policies, and accounting and investment adjustments that may affect the financial statements. We reviewed correspondence between AIMCo and the Department and are satisfied that the communication process is effective.

- developing an efficient and timely process for adjusting the general ledger for errors identified by the Department. As of December 31, 2010, there were no outstanding errors that required correction.
- recording private investment valuations in the investment management system before the quarterly investment write-down analysis. It has also established a process to control and communicate private investment valuation adjustments made after year-end.

## AIMCo financial statements—implemented

### Background

In our *October 2009 Report* (page 236), we recommended that AIMCo improve its processes and internal controls to achieve completeness and accuracy in financial reporting together with increased efficiency.

In 2010, we indicated that to fully implement this recommendation, AIMCo should provide us with a complete, accurate and supported set of financial statements for audit within three weeks of year-end.

### Our audit findings

AIMCo implemented this recommendation by providing a draft of the financial statements along with a complete set of working papers by April 26, 2011 in accordance with the timelines in the audit plan. The working papers were well-organized and supported.

# Alberta Pensions Services Corporation

## Matters from prior-year audits

## Information technology control framework—implemented

### Background

In our *October 2008 Report* (pages 52 and 268), we reported that Alberta Pensions Services Corporation should develop an information technology control framework, to identify and mitigate IT risks and improve its controls over information technology. Alberta Pensions Services was one of nine organizations that received this recommendation, along with the Ministry of Service Alberta.

### Our audit findings

Alberta Pensions Services Corporation designed and implemented an IT risk and control framework in 2010. The Corporation first developed an IT risk management plan in 2009. The plan identified and assessed the likelihood and impact of IT risks affecting its technology operations. This plan was integrated with its corporate enterprise risk management framework. The Corporation also developed an IT control framework, and implemented it in 2010, to ensure that control procedures were designed, implemented and operating effectively for high-risk areas identified in the IT risk management plan.

# ATB Financial

## Matters from the current audit

## New banking system—internal controls

### Background

We audited the processes ATB Financial followed to ensure internal controls in the new banking system were adequate before ATB implemented the new banking system. This included:

- reviewing ATB's internal control project
- assessing the systems management used to make its assertion to oversight groups on the adequacy of internal controls

Our audit covered activities on ATB's new banking system project up to June 2011. ATB started using its new banking system in September 2011.

Management is responsible for the quality of an organization's internal controls. ATB's Audit Committee is responsible for confirming to its Board of Directors that adequate and effective controls are in place.[2] Management initiated an internal controls project in April 2010 to assess the controls within the new banking system.

2 *ATB Audit Committee Terms of Reference*, August 2009

ATB's internal controls team:

- reviewed business process documentation for the new banking system
- developed risk control matrices for the business processes that identify the key controls management will rely on
- provided the risk control matrices to the business process owners for review and feedback

By key controls, we mean the controls management identified in its risk control matrices.

## Recommendation: new banking system internal controls

**16 RECOMMENDATION**

We recommend that ATB Financial confirm that the key controls in the new banking system, as identified in its risk and control matrices, are implemented and operate effectively.

## Criteria: the standards for our audit

ATB should have effective processes to enable the CEO and CFO to assert to the Audit Committee that key internal controls in the new banking system are well-designed, implemented and operating effectively.

To rely on internal controls, auditing standards require:

- an evaluation of the design of the control to ensure the control, individually or in combination with other controls, can effectively prevent, or detect and correct, material misstatements
- confirmation that the control has been implemented, which means it is in place and being used
- testing of the operating effectiveness of the control, which means that it is accomplishing what it was designed to do

## Our audit findings

**Key finding**

Existence and operating effectiveness of controls have not been confirmed.

Prior to implementing the new banking system, ATB management believed it had completed enough work on the design of controls in the new banking system for the CEO and CFO to make an assertion on the adequacy of controls. Management's work to date has focused on control design, but has not confirmed that the controls they intend to rely on to prevent, or detect and correct misstatements have been implemented in the new banking system. In other words, ATB has not confirmed that the controls exist and are being used in the new banking system. Nor has it confirmed that those controls are operating effectively.

Management has told us that they believe the control environment in the new banking system is better than the control environment in its previous banking system. Management has also told us that some controls have been tested as part of the end-to-end business process testing and user acceptance testing. However, they have not:

- identified which controls in the risk control matrices have been tested
- assessed how many of the controls in the risk control matrices have been tested
- identified which controls have not been tested and considered any resulting risk caused by not testing them

Management has focused on designing and documenting the controls in the new banking system. But management cannot demonstrate that the key controls have been implemented in the new banking system and that those controls operate effectively.

## Implications and risks if recommendation not implemented

Management and the Audit Committee are relying on key controls that have not yet been confirmed to be implemented and operating effectively.

## Matters from prior-year audits

### Client derivative credit limits—implemented

#### Background

In our *October 2010 Report* (page 153), we repeated our 2008 recommendation that management promptly update the derivative credit limits disclosed in the *Daily Derivative Credit Exposure Report*. We reported that for ATB to implement the recommendation, it must create a process that promptly updates customer credit limits on the *Daily Derivative Credit Exposure Report* when customer credit limits change.

#### Our audit findings

ATB implemented the recommendation by:

- improving communication to key stakeholders, including the Market Risk area, when changes to application for credit documents occur
- creating a regular review process, performed by the Market Risk group

We tested a sample of client credit limits on the *Daily Derivative Credit Exposure Report* by comparing the limit on the monitoring report with the client's approved limit and we did not note any differences.

# Health and Wellness

In 2010–2011, the Department of Health and Wellness had approximately 780 employees (FTEs) to support its operation. In 2010–2011 it spent about $15 billion.

Alberta Health Services, supported by over 64,000 FTEs, spent approximately $11 billion in 2010–2011. Its expenses represent about one quarter of the total government expenses.

## Summary

### Ministry and Department

The Department of Health and Wellness has implemented:

- recommendations we have made since 1997–1998 to improve its process on physician billings—It has completed a comprehensive risk assessment, developed risk-based audit plans, and used data mining techniques to strengthen its compliance monitoring to investigate anomalies in physician billings—see below.
- our October 2006 recommendation to carry out a comprehensive risk assessment of its information technology environment, and develop and implement an IT disaster recovery plan—see page 107
- our October 2007 recommendation to improve its procedures to enforce and monitor compliance with its information security policy—see page 108

Due to changed circumstances, we are no longer following up on our October 2004 recommendation on accountability of the various health regions to the Minister of Health and Wellness and our October 2006 recommendations on accountability for health care costs—Ministry annual report analysis and performance measures—see page 108.

### H1N1 pandemic response

We chose not to perform an audit of Alberta's response to the H1N1 pandemic. On page 109 we explain our rationale for this conclusion.

### Alberta Health Services

AHS implemented our recommendation to improve its year-end financial reporting processes—see page 110—and began establishing a system to measure and report on the effectiveness of its internal control over financial reporting—see page 117.

In the past year, AHS made satisfactory progress:

- improving its controls for physician recruitment incentives—see page 110
- developing IT control policies and processes—see page 111
- establishing comprehensive outcome-based performance measures for contracted surgical facility services and monitoring these facilities—see page 114
- improving its controls over contracting—see pages 115 and 116

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

#### Physician billings—implemented

**Summary**

The Department has implemented the recommendations we have made since 1997–1998 to improve its process for physician billings. It has completed a comprehensive risk assessment, developed risk-based audit plans and used data mining techniques to strengthen its compliance monitoring to investigate anomalies in physician billings.

## Background

In our *October 1998 Report* (page 150), we recommended that the Department assess the risk that it was making incorrect payments to physicians for health services and implement new strategies to improve how it made payments. We found that the Department needed to improve how it identified claims that did not fit within normal billing patterns. We also noted that a risk assessment would improve the Department's understanding of physicians' billing practices. We repeated these recommendations in our *October 2001 Report* (no. 16—page 119 and no. 17—page 121).

In 2005–2006, we found that the Department still did not have specialized data mining equipment or staff trained to search data for trends, errors or anomalies that might indicate inappropriate payments. We made another recommendation to the Department in our *October 2006 Report* (no. 33, vol. 2—page 120) to strengthen its processes to analyze and investigate billing anomalies.

In 2007–2008, we followed up on the Department's implementation of our past recommendations. At that time, we also reviewed the Department's compliance monitoring activities. We restated the recommendations in our *October 2008 Report* (no. 35, vol. 2—page 300) that the Department complete a comprehensive risk assessment and develop a risk-based plan to improve the effectiveness of its compliance monitoring.

In 2010–2011, fee-for-service physician billings amounted to over $2 billion. Under the fee-for-service Alberta Health Care Insurance Plan payment method, the Department pays physicians for providing insured medical services to patients based on claims that physicians submit. The Department's electronic claims assessment system (CLASS) processed and paid about 60 million claims in 2010–2011. CLASS uses over 3,000 assessment rules, associated with over 4,000 health service codes, to validate each claim. When a claim complies with the assessment rules, CLASS processes the payment automatically.

Employees in the Department's Compliance Monitoring and Risk Management Branch look for anomalies, trends or errors in payments. The Branch's Data Monitoring Team develops and analyzes data reports, and undertakes initial reviews. If the reviews show that further investigation is needed, the Compliance Team then investigates individual physicians to assess whether their claims are appropriate under the circumstances. A physician who does not agree with the reassessment may ask to have the Minister's delegate review the case. Once the Minister's delegate reaches a decision, the physician can either accept the decision or appeal to the Court of Queen's Bench.

## Our audit findings

**Key finding**

Processes are in place to investigate anomalies in fee-for-service physician billings

This follow-up audit focused on determining whether the Department had a comprehensive risk assessment and risk-based audit plans to guide its review of physician billings. We also examined whether the Department had an adequate and efficient compliance monitoring process to investigate anomalies in fee-for-service physician billings.

Since 2006–2007, the Branch has continued to:

- develop a risk management framework to document and evaluate risks of inappropriate physician payments
- develop risk-based audit plans
- review its processes, structure and use of technology for compliance monitoring

The Branch developed its first comprehensive risk-based audit plan for fee-for-service physician claims for 2010–2011. The audit plan included routine and risk-based projects, and incorporated data mining techniques to improve efficiency. Routine projects included reviewing complaints from the public and answering requests for physician claims information from the College of Physicians and Surgeons of Alberta. Risk-based

projects included flagging physicians for review, and using time-based health service codes. These codes are associated with the amount of time physicians spent with patients.

The Branch continues to develop tools and processes to carry out these audit projects. For example, it developed a data mining tool to extract the previous nine months of data and review 100% of Alberta Health Care Insurance Plan fee-for-service claims to flag physicians for review. The Branch also developed standardized computer queries to reduce the time needed—from over 50 hours to about 25 minutes—to gather physician claims information.

When initial reviews indicated anomalies, we noted that the Compliance Team conducted in-depth investigations. The investigations included reviewing claims data volume for periods of between 90 days and two years. The Department required physicians who were investigated to provide information to support any anomalies flagged. The Compliance Team, including staff with medical backgrounds, reviewed the supporting information, such as hospital records and patient charts from physicians' offices.

When investigations resulted in identifying inappropriate claims and reassessments were necessary, we noted that the Branch worked with the physicians to recover overpayments. The Branch also educated the physicians on the correct use and application of health service codes in submitting claims in the future.

The College of Physicians and Surgeons of Alberta regulates the medical profession in Alberta, issues medical practice licences and takes disciplinary action based on its mandate under the *Health Professions Act*. If the Branch[1] has concerns regarding the professional conduct of a regulated physician, they may file a complaint with the College, in accordance with the *Act*. In June 2011, there was a media report about a physician who had inappropriately billed the Alberta Health Care Insurance Plan for services. One of the concerns raised was that the physician submitted claims for deceased patients. As part of our review, we noted that the Branch flagged this physician for review in 2006–2007 for this concern, and the Branch recovered overpayments from the physician. We also noted that in February 2007, the Branch sent a letter to the College reporting its concerns about the physician's geriatric practices due to the high volume of claims in a day. These findings indicate that the Department has processes in place to improve its understanding of physician billing practices.

In 2010–2011, the Branch conducted over 200 in-depth investigations of billing practices and recovered over $750,000. We reviewed the Branch's internal reports and noted that the reports tracked the status of individual physician investigations, and the progress and results of all projects identified in the audit plans.

## IT control environment—implemented

### Background

In our *October 2002 Report* (no. 24—page 135), we recommended that the Department assess the effectiveness of IT controls, resolve deficiencies and strengthen the overall control framework. We repeated our recommendation in our *October 2004 Report* (no. 22—page 195).

In our *October 2005 Report* (page 227), we noted that the Department was making satisfactory progress resolving these deficiencies. Specifically, the Department:

- told us that it would complete a corporate-wide IT risk assessment, with a recognized risk-based strategic assessment and planning tool by March 2006
- had prepared a disaster recovery plan and although it still had to approve the plan, put a process in place to regularly test and update it

When we followed up the recommendation in 2005–2006, we noted that the Department still had not fully implemented our recommendation. In our

1 Under Section 22(19) of the *Alberta Health Care Insurance Act*, Section 35(5) of the *Health Information Act* and Section 40(1)(e) of the *Freedom of Information and Protection of Privacy Act*.

*October 2006 Report* (no. 34, vol. 2—page 123), we again recommended that the Department carry out a comprehensive risk assessment of its IT environment, and develop and implement an IT disaster recovery plan.

### Our audit findings

The Department has now implemented our recommendation. It:

- developed a comprehensive risk assessment standard
- completed an enterprise threat and risk assessment
- updated security controls based on the threat and risk assessment
- upgraded the intrusion detection system, the intrusion protection system and a port locking tool
- tested its disaster recovery plan in November 2010
- updated its disaster recovery plan as of January 2011

Management continues to review the threat and risk assessment annually, and update and test the disaster recovery plan.

## Unauthorized network connections—implemented

### Background

In our *October 2007 Report* (vol. 2—page 105), we recommended that the Department improve its procedures to enforce and monitor compliance with its *Information Security Policy*.

The Department's *Information Security Policy* states that laptops and other network equipment, such as wireless access points, must meet its security requirements before connecting to its network. The *Policy* also states that the Department must be aware of, and approve all access to its systems. Products are readily available that can evaluate computers and network equipment to ensure that they comply with security restrictions before they are allowed to connect to a computer network.

### Our audit findings

The Department has implemented the recommendation. It:

- deployed an intrusion prevention system in 2009
- reviewed monthly reports from the intrusion prevention system
- implemented a management reporting process

The Department has also contracted a vendor to implement a tool to ensure only legitimate IT systems can connect to its network. It deployed the tool and necessary software to workstations and completed the project in August 2011.

## Accountability of the health regions, costs and performance measures—changed circumstances

### Background

In our *October 2004 Report* (no. 23—page 197), we recommended that the Department improve accountability of the health regions to the Minister—changed circumstances

In our *October 2006 Report* (no. 31, vol. 2—page 116), we recommended that the Ministry of Health and Wellness explain and quantify, in its annual report, key factors affecting health care costs—changed circumstances

In our *October 2006 Report* (no. 32, vol. 2—page 118), we recommended that the Ministry of Health and Wellness link health costs to outputs for the Ministry as a whole—changed circumstances

### Background

When we made these recommendations, the health sector included nine regional health authorities, two boards and one commission operating under individual performance agreements with the Department. There have been significant changes to the health sector since the recommendations were made, such as the creation of one health authority, Alberta Health Services. The Department has worked with AHS to confirm its expectations

of performance and requirements for reporting to the Department. AHS now publishes its operating budget, business plan, interim and year-end financial statements and its annual report. On November 30, 2010, the Alberta government released *Becoming the Best: Alberta's five-year Health Action Plan 2010–2015*,[2] which contains 50 performance measures. The Department also compiles information on key factors affecting health care costs.

Because of the change to one health authority, these specific recommendations will not be followed up. However, the issues discussed in these recommendations are still important and will be considered in the new environment.

## H1N1 pandemic response

### Background

We considered auditing the systems in place, primarily in the Department and AHS, to prepare and respond to a pandemic. While we were planning our audit, the Minister of Health and Wellness asked the Health Quality Council of Alberta to review Alberta's pandemic response under the Council's mandate. We agreed to defer our audit pending the outcome of the Council's review.

We participated as observers during some of the Council's joint meetings with the Department, AHS, and Alberta Emergency Management Agency management throughout the review. We also had access to and reviewed documentation the Council gathered to prepare its report. The purpose of our participation was to assess whether or not to perform our own audit.

### Our conclusion

We have reviewed the Council's report and documentation supporting its findings and conclude that an audit by our Office would not lead to additional recommendations. Since the Council's report already identifies the processes requiring significant improvement, an audit by us would not add value.

### Examination of the Council's Report

The Council's findings[3] resulted in 18 recommendations that, when implemented, will improve the following processes:

- governance
- planning
- logistics management
- surveillance
- implementation testing

The H1N1 pandemic response is a case study that could be applied to other emergencies that government departments prepare for. In particular, the Council's Report highlights the following lessons:

- clearly articulating roles and responsibilities will help ensure that each organization's resources are used effectively at the right time
- preparedness exercises help ensure desired results in an actual emergency by:
  - identifying practical deficiencies so that plans can be remedied before an emergency takes place
  - training those who need to act so that they will be able to act without pause in an emergency
- the principle of prioritizing the allocation of resources based on risk underlies many of our past recommendations. It is reasonable to us that a prioritization system for distributing vaccine should be based on sufficient medical information about the health and societal risks associated with a new viral strain. Once these risks are known, the prioritization system should be implemented.

The Ministry of Health and Wellness has established a committee, with representatives from the Department, AHS and AEMA, to implement the Council's recommendations. Timely completion

2 http://www.health.alberta.ca/documents/Becoming-the-Best-2010.pdf

3 The Council's report *Review of Alberta's Response to the 2009 H1N1 Influenza Pandemic* can be found on their website at http://www.hqca.ca/assets/pdf/H1N1/H1N1_OfficialReport_December_2010.pdf

of the committee's responsibilities is critical to Albertans' health and safety. In accordance with our mandate, we will monitor the outcomes of the committee.

## Alberta Health Services

### Year-end financial reporting processes—implemented

#### Background

In our *October 2009 Report* (page 274) and *October 2010 Report* (no. 23—page 169), we recommended that AHS improve its year-end financial reporting processes by:

- clearly defining roles, responsibilities and decision-making authorities for financial reporting
- improving processes to identify and resolve key accounting risks and reporting issues on a timely basis

At the conclusion of our 2010 audit, we found that AHS had implemented the first part of our recommendation, but was still having difficulty producing accurate consolidated financial statements within the necessary timelines, as it did not deal with financial issues on a timely basis.

#### Our audit findings

To resolve issues on a timely basis, AHS management:

- created a plan that outlined accounting issues to be researched for the 2011 year and the deadlines for resolving these issues. Throughout the year, management reported to AHS's Audit and Finance Committee the progress made in resolving the issues.
- developed a detailed year-end plan outlining tasks to be completed, individuals responsible for completing them, deadline dates and staffing requirements
- monitored completion of the tasks

As a result of these processes, AHS produced a more accurate set of consolidated financial statements in time to meet its 2011 financial statement deadlines.

### Physician recruitment incentives—satisfactory progress

#### Background

In our *October 2009 Report* (page 279), we recommended that AHS improve its controls for physician recruitment incentives by developing and implementing a policy that identifies:

- criteria and approvals required for granting loans, income guarantees and relocation allowances
- monitoring and collection procedures for loans to physicians

We made this recommendation because we found that Palliser Health Region (a predecessor organization to AHS) did not have a policy for granting physician recruitment incentives, including loans. In 2008–2009, senior executives authorized six loans totalling approximately $400,000, one of which included an income guarantee of approximately $300,000 for the first two years of practice. Relocation allowances totalling approximately $139,000 were also provided.

We found that Palliser Health Region did not have documented procedures for collecting and monitoring the loans. Monitoring was informal and loan interest was not recognized until the final loan payment had been received.

#### Criteria: the standards for our audit

Policy and procedures should be established and followed for approving the components of recruitment agreements. Procedures should be implemented for monitoring and collecting loans to physicians.

#### Our audit findings

AHS created a physician recruitment policy and has also updated its physician recruitment guidelines, standards and directives, effective September 2010.

The *Physician Recruitment Policy*[4] explicitly states "AHS does not provide minimum income guarantees or loans (business or personal) to physicians as part of recruitment incentives."

We noted an instance where a physician was paid an allowance that was approximately $15,000 in excess of the contracted maximum, and management was unable to provide evidence to support this deviation.

We also found three instances where the employees were paid more in relocation allowances than the *Policy* allows. These increases were, however, approved by the Chief Medical Director. While the *Policy* specifically allows for increases in certain types of incentives to be approved by the Chief Medical Officer, there is no similar provision for the relocation allowances.

For this recommendation to be implemented, AHS should clarify in the *Policy* the approvals required for relocation allowances and then put in place a process to ensure the policy is consistently followed.

### Implications and risks if recommendation not implemented

Without a process to ensure its policy is followed, AHS risks providing inappropriate incentives to physicians.

## IT control policies and processes—satisfactory progress

### Background

In our *October 2009 Report* (no. 29—page 262), we recommended that AHS:

- develop an IT control framework, including appropriate risk management processes and controls, for management of its IT resources
- monitor compliance with security policies, implement effective change management processes and improve password controls

In 2009, the Government of Alberta consolidated the nine regional health authorities and three boards and formed AHS. Previously, we audited each of the RHAs separately. After the consolidation, we changed our approach and audited all of them together in a single audit. When AHS was formed, there were a number of outstanding recommendations that we had made to the RHAs. As those entities no longer exist, we followed up on those recommendations with AHS.

The number of recommendations that were outstanding indicated to us that the overarching problem AHS needed to fix was the lack of an IT control framework.

As implementing an IT control framework will also implement the recommendations on the following page made to the previous RHAs, we have removed these recommendations from our list of outstanding recommendations.

4 *Physician Recruitment Policy*, Section 1.5

Ministry of Health and Wellness

| | Former Health Entity | Recommendation Topic | OAG Report |
|---|---|---|---|
| 1 | Calgary Health Region | Inappropriate user access | October 2007, vol. 2, no. 29, p. 113 |
| 2 | Alberta Cancer Board | Controls over access to computer applications | October 2007, vol. 2, p. 115 |
| 3 | Alberta Alcohol and Drug Abuse Commission | General computer controls | October 2007, vol. 2, p. 116 |
| 4 | Calgary Health Region | IT change management controls | October 2008, p. 306 |
| 5 | Calgary Health Region | IT user access management controls | October 2008, p. 307 |
| 6 | Capital Health | IT security controls | October 2008, p. 308 |
| 7 | Capital Health | IT change management controls | October 2008, p. 309 |
| 8 | Peace Country Health | IT user access | October 2008, p. 313 |

## Criteria: the standards for our audit

An IT control framework is a set of activities designed to mitigate risks and ensure business objectives are met. The framework is the sum of all controls, processes and policies that enable management to know if information and information assets are being properly used, so that the organization is:

- likely to achieve its objectives
- resilient enough to learn and adapt
- effectively managing risks

An industry standard called Control Objectives for Information and Related Technology is often used as a guide when designing and implementing an IT control framework. An IT control framework should provide direction for all processes an organization needs to manage IT, including direction on planning and organizing IT, acquiring and implementing IT, delivering and supporting IT, and monitoring and evaluating IT. COBIT calls each of those areas domains and divides the domains into 34 processes. Each of the processes can be further broken down into sub-processes.

## Our audit findings

AHS has a plan to implement an IT control framework and has completed phase 1 of that plan by evaluating the maturity of its controls and comparing them with COBIT. AHS has also:

- implemented two of our prior recommendations on change management
- approved a project to improve access controls across AHS
- approved a project to improve security monitoring across AHS

In July 2010, AHS informed us that it had launched an IT control framework project as part of its AHSecure Program. The high-level objectives of the project are to create an AHS-specific COBIT control objectives framework, perform a detailed assessment of the level of IT control maturity and increase awareness, understanding and knowledge transfer within IT and business.

Until March 2011, AHS focused on an internal IT baseline assessment for the 34 processes in COBIT. The baseline maturity assessment compared AHS's controls, processes and policies with the best practices COBIT recommends, ranking them on a scale of 1 to 5. The assessment resulted in 34 management reports summarizing maturity model findings and potential risks.

After reviewing AHS's plan to implement the control framework and the management reports, we confirmed AHS is following a logical plan to implement an IT control framework. When implemented, this framework will provide management with the necessary controls over their IT to support business needs.

We completed a review of the general computer controls at AHS as part of our financial statement audit. Through that review, we were able to evaluate the design of controls at AHS and conclude on what work remains until AHS has fully implemented the recommendation.

In this audit, the sub-processes we focused on were:

- access controls
- security
- change management

We chose to focus on these sub-processes because they are directly related to the recommendations we had previously made to the RHAs.

### Access controls—satisfactory progress

AHS has initiated an identity and access management project. The intent of the project is to standardize the management of access to all systems across AHS.

AHS's objectives are to:

- comply with auditor and security requirements for access control and management
- realize IT administration efficiencies from automated user account administration and improved user account management mechanisms

We found a number of areas where access controls could be improved. None of the following issues were pervasive, but could affect multiple systems:

- user access management processes are not documented and evidence of access approvals are not retained
- user access management policies that do not:
  - include procedures related to user access modification and termination
  - require all users to have a unique identifier and password
- segregation of duties between requestors and implementers is not consistently followed
- no documented process to restrict IT staff access to application systems on the principle of "least access required"
- no documented process to perform periodic reviews of user accounts to ensure access continues to be appropriate

To fully implement this sub-process, AHS needs to complete its identity and access management project and manage access to all critical business systems by ensuring:

- documented processes are followed to set up access
- documented processes are followed to change access
- access is terminated as soon as it is no longer required
- access rights are regularly reviewed
- security roles are well-defined to enforce segregation of duties

### Security—satisfactory progress

AHS has initiated a project to implement a security incident and event management system with enough scalability to serve the needs of the entire organization. The intent is to outsource the SIEM implementation and ongoing operation of the SIEM system. A SIEM will collect and store security-related information from network devices, security devices and systems. The system will include a real-time analysis capability to identify and react to security events, and a mechanism for creating reports to facilitate compliance monitoring and investigation.

To fully implement this sub-process, AHS needs to complete its SIEM project and ensure it monitors and responds to security events within its environment.

### Change management—satisfactory progress

We found the changes AHS made to the financial applications consistently followed documented procedures, and were well-managed.

Based on our testing of changes made to financial applications at AHS, we found that AHS has implemented our past recommendations on change management for the former Calgary Health Region *(October 2008 Report*, page 306*)* and for the former Capital Health Region (*October 2008 Report*, page 309).

Although we found AHS implemented these two recommendations, to fully implement the change management sub-processes of the IT control framework, AHS needs to improve its processes by:

- documenting individuals authorized to migrate changes from testing and development environments to production
- consistently performing post-implementation reviews
- developing a separate test environment for the applications

### Implications and risks if recommendation not implemented

Without a well-designed process to identify risks to its IT environment, AHS cannot be aware of all risks to its information systems and data. Inadequate and ineffective IT control processes and activities can lead to:

- confidential patient data being lost, improperly accessed, misused or disclosed
- implementation of systems or applications that do not work as expected or do not provide the expected benefits
- errors in the financial information not being detected and corrected

## Contracted surgical services—satisfactory progress

### Background

In our *October 2001 Report* (page 135), we recommended that the Calgary Health Region and Capital Health Region (predecessor organizations to AHS) establish comprehensive outcome-based performance measures for contracted surgical facility services, and incorporate these standards of performance in ongoing monitoring of contracted facilities.

We made this recommendation because performance measures were not in place to compare performance between public and private facilities, and to ensure that the predecessor organizations were obtaining value for money from these facilities.

### Criteria: the standards for our audit

AHS should monitor the performance of contracted surgical services using comprehensive performance measures.

### Our audit findings

AHS has established outcome-based performance measures and accreditation standards, which are contained within the individual contracts.

We selected five non-hospital surgical facility (NHSF) contracts and found that all five had a comprehensive set of appended schedules. The schedules indicated performance measures and reporting and regulatory requirements that each NHSF must report annually to AHS. The reporting required includes:

- the facility's surgical specialty and number of procedures performed in the year, by category
- a list and statement of revenues for all enhanced medical goods and services provided by the facility

AHS's contract procurement and supply management has overall responsibility for contract monitoring and compliance, including contracts with the NHSF. While the contracting, procurement and supply management unit confirmed that the information stipulated within the individual NHSF contracts is reported and reviewed annually by CPSM, there was no documentation of the review, or documentation of assessment of compliance for any of the contracts selected. CPSM also indicated that AHS has not established a formal policy documenting the review process.

For this recommendation to be fully implemented, AHS should:

- establish a formal policy indicating the review process applicable to NHSF
- document its assessment of compliance and approval of the annual reports from each NHSF

### Implications and risks if recommendation not implemented

Without appropriate review of contract compliance, there is a risk that AHS may make payments that are not consistent with the terms of the contract or not receive value for money from the contracts.

## Contracting practices—internal controls—satisfactory progress

### Background

In our *November 2006 Report* (no. 1—page 14), we recommended that the Alberta Alcohol and Drug Abuse Commission, a predecessor organization to AHS, improve its controls over contracting by:

- ensuring adequate segregation of duties over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

We made this recommendation in our *November 2006 Report* because a senior AADAC employee had diverted $441,298 to himself and $192,952 to other parties through the use of five false contracts.

AHS has three types of contracts: medical, human resources and corporate.

### Criteria: the standards for our audit

AHS should have a system of internal control that mitigates the risk of inappropriate diversion of funds.

### Our audit findings

In response to our recommendation, AHS developed three new policies:

- *Contracts*
- *Delegation of Authority for Financial Commitments*
- *Consultant Engagements*

These policies identify the individuals who have approval authority and the requirements that must be met for staff to enter into contracts.

To ensure proper segregation of duties, AHS requires all contracts to have two approval signatures. AHS's CPSM unit is also required to review all corporate contracts.

We examined corporate contracts from across various sites and noted that some were signed after the effective start date of the contract. One of the contracts did not comply with the policy, as the individual who signed it did not have the level of authority required by the policy.

We did find, however, that the payments were in accordance with the contract's terms.

AHS policy requires that CPSM establish a monitoring process for corporate contracts to ensure contractors meet the terms of their contract. At the time of our follow-up audit, AHS was implementing a new accounts payable system. CPSM had not yet established a monitoring process, but planned to do so after AHS has implemented the new accounts payable system.

To fully implement this recommendation, AHS needs to:

- ensure CPSM receives and reviews all corporate contracts before they are signed and before services begin
- establish standardized monitoring to test whether program groups are ensuring contractors meet contract terms

### Implications and risks if recommendation not implemented

If the controls established by the policies are not consistently applied, there is a risk that AHS may enter into inappropriate contracts or make payments that are not consistent with the contract terms.

## Contract documentation—satisfactory progress

### Background

In our *October 2008 Report* (page 312), we recommended that Alberta Health Services—Peace Country Health (a predecessor organization to AHS) develop and implement a sole-sourcing policy for contracts and ensure that sole-sourcing is clearly documented and justified. We also recommended that AHS ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

We made this recommendation because:

- Alberta Health Services—Peace Country Health did not have a sole-source contract policy
- we found a contract that had been sole-sourced but had no documentation for the sole-sourcing decision
- while Alberta Health Services—Peace Country Health later agreed to have the contractor provide additional deliverables and extend the contract, the contract was not amended

### Criteria: the standards for our audit

Contracting competitions should be open, fair and achieve good value. A sole-sourcing policy should be in place and followed. Sole-sourcing should be clearly justified and documented.

Contract amendments, including changes to the term or contract deliverables, should be justified, authorized and documented.

### Our audit findings

AHS's *Contracts Policy* indicates the criteria for deciding if a sole-sourcing arrangement is appropriate. This *Policy* also requires AHS's CPSM unit to review and approve corporate contracts before the contracts are finalized.

We selected and assessed a sample of sole-source contracts for compliance with the *Policy*. We found that the contracts complied with AHS's sole-sourcing criteria. However, we found that for some of the contracts, CPSM had signed the contracts after the effective start date of the contract. CPSM told us that they had reviewed the support for sole-sourcing contracts before the effective start date of the contracts. However, we could not find any evidence to indicate when their review had taken place.

We also found that one of the sampled contracts was amended after its initial approval, and that the amendment was made in accordance with the controls required by AHS's policies.

For the recommendation to be fully implemented, AHS should ensure that:

- a CPSM staff member reviews the support for sole-sourcing the contract before the effective start date of the contract and documents the timing of this review
- if AHS signs a contract after its effective start date, a letter of understanding is in place for the period between the effective start date of the contract and the date the contract is signed

### Implications and risks if recommendation not implemented

AHS will not have adequate support to justify sole-sourcing contracts.

## Internal control over financial reporting—progress report

### Background

In our *November 2006 Report* (no. 3—page 17), we recommended that the AADAC Board, receive reports from management at least annually, on the design and effectiveness of AADAC's internal controls.

We made this recommendation because the Board was not receiving information from management about the design and effectiveness of internal control on a regular basis and AADAC had had a significant fraud perpetrated against it.

**Management's actions**

At the time of our follow-up, AHS had recently hired a Director of Internal Controls. AHS had also established a project charter outlining the action needed to assess and implement internal controls over financial reporting. One of the objectives of the project is to ensure the financial reporting controls mitigate the risk of material misstatements, including those related to fraud, in AHS's financial statements.

As part of this project, AHS plans to identify, document and test key controls for significant accounts and processes, and communicate annually the results of this work to the AHS Audit and Finance Committee. AHS's Internal Audit also plans to audit the process followed.

# Housing and Urban Affairs

## Summary of our recommendations

The Department of Housing and Urban Affairs has implemented our October 2009 recommendation to improve its monitoring process of direct rent supplement payments issued by management bodies, by requiring periodic reviews of these payments—see below.

### Alberta Social Housing Corporation

Alberta Social Housing Corporation should develop a contracting policy for additions to its social housing portfolio and strengthen related contract management processes—see below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendation

### Department

#### Matters from prior-year audits

#### Direct rent supplement program payments—implemented

**Background**

In our *October 2009 Report* (page 283), we recommended the Department improve its monitoring process of direct rent supplement payments issued by management bodies, by requiring periodic reviews of these payments.

**Our audit findings**

Management has developed a process to review the direct rent supplement program. The process includes a site examination of the accounting records of this program and a review of tenant files conducted by the Department. The Department then sends a letter to the management body informing them of the results of the review.

As at March 31, 2011, six out of the seven large management bodies have had a review completed, and plans are in place to complete the review of the one remaining large management body and the smaller management bodies involved in delivering the program.

### Alberta Social Housing Corporation

#### Matters from the current audit

#### Contracting policy for social housing construction projects

**Background**

In 2010, the Corporation entered into three agreements for the construction of capital additions to its social housing portfolio. Under these agreements, the Corporation would provide funding to management bodies to complete the construction of three projects worth $9.7 million in total. A management body is an organization established under the *Alberta Housing Act*[1] by the Minister of Housing and Urban Affairs to manage the Corporation's housing portfolio.

The Corporation's processes for writing contracts to build capital assets for its social housing portfolio are relatively new. In prior years, improvements to social housing units owned by the Corporation consisted primarily of repair and maintenance projects, which are operating expenses. These projects were funded by providing operating grants to the management bodies who would arrange for the repairs to be completed. If a management body owns a social housing unit then the management body is responsible for the costs of repairs and maintenance.

1 RSA 2000, c A-25

## Recommendation: social housing contracting policy

**17 RECOMMENDATION**

We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

## Criteria: the standards for our audit

The Corporation should have a policy and processes to provide guidance to staff on contracting for capital additions to its social housing portfolio.

## Our audit findings

**Key findings**

- No policy or procedures for contracting additions to the Corporation's social housing portfolio
- Steps for monitoring project progress and documentation requirements are not defined
- Guidance needed for setting payment milestones

The Corporation does not have a specific contracting policy for managing capital construction projects. We examined one of the three agreements. The agreement we examined was for construction of a $3.8 million addition to one of the Corporation's social housing complexes. The agreement was with a management body that would then hire a construction company to complete the project.

### Clarification is needed on what are the agreed to project plans and specifications

The agreement lacked a detailed description of the project. The agreement stated the project was a 24-unit building. However, this is only a general description of the project to be built. It also stated the Corporation was to receive and approve plans for the project. However, we could not find evidence in the project file that a specific plan was approved to confirm the agreed-to project.

The agreement also required selective demolition of some parts of the existing building. However, the specifics of the demolition were not adequately defined and did not refer to a plan of the building.

### Processes for assessing project progress and compliance with agreements need strengthening

The Corporation's project files did not contain the project plan for capital construction. The plan is essential for assessing if the project under construction is consistent with the Corporation's requirements, and to assess the project's progress.

The agreement required the management body to obtain the necessary insurance during construction. We also did not see evidence in the file that the Corporation requested a copy of the insurance policy or confirmed the management body obtained it and is satisfied with the insurance coverage.

### Policy needed for setting payment milestones

The payment terms in the agreement were that 90% of the funding could be issued when the project was 60% complete. Management advised us this was done to provide adequate cash flow to the management body to pay its builder. However, the Corporation does not have a policy that provides guidance in setting payment milestones or holdbacks.

## Implications and risks if recommendation not implemented

Without a contracting policy and processes for capital additions to the Corporation's social housing portfolio, the Corporation may not ensure the projects are meeting its requirements, or that it is getting good value for money.

# Justice

## Summary

### Department

The Department of Justice has implemented our October 2009 recommendations to:

- clarify the collection steps for judgements assigned to it under the Motor Vehicle Accident program—see below
- obtain assurance that organizations provided access to the Justice Online Information Network system are following the Department's policies and procedures for granting user access—see below

## Our audit findings

### Department

#### Matters from prior-year audits

#### Motor vehicle accident program—clarifying collection steps—implemented

**Background**

In our *October 2009 Report* (no. 33—page 293), we recommended that the Department clarify the collection steps for judgements assigned to it under the Motor Vehicle Accident program.

Each year, about $9 million of the judgements outstanding under the Motor Vehicle Accident program are classified as pending write-offs. This means that the Department no longer includes these files in its active collection efforts. In our 2009 audit, we found that the Department did not have clear criteria for collection steps it should take before classifying a debtor account as a pending write-off.

**Our audit findings**

The Department implemented this recommendation by establishing processes and defining criteria to manage judgements assigned under the Motor Vehicle Accident program. The Department updated its procedures manual with detailed instructions for handling motor vehicle accident claims and debtors. Examples of improved procedures the Department has implemented since June 2010 include:

- program staff perform bankruptcy checks on every debtor
- in conjunction with the Department of Transportation, the Department suspends, deletes and reinstates driver's licences through an automated process. If the system rejects an electronic submission, it notifies the Motor Vehicle Accident Claims Branch immediately.
- collection officers use a checklist when assessing whether a file should be classified as a pending write-off
- detailed judgement renewal criteria and procedures help staff assess whether to renew a judgement that is about to expire

We tested the Motor Vehicle Accident program controls over claims and collections and found them to be operating effectively.

#### Access controls—implemented

**Background**

In our *October 2009 Report* (page 295), we recommended the Department obtain assurance that organizations with access to the JOIN system are following the Department's policies and procedures for granting access.

Provincial Crown organizations, police and the courts use JOIN to track information on offenders' status. The Department has developed procedures to evaluate organizations that request access to JOIN. It grants access only to organizations that have a valid need. Once the organizations are approved and given training, the system allows them to create user accounts for employees that need access to JOIN.

## Our audit findings

During our audit, we found that the Department does a semi-annual review of access to the JOIN application. These reviews verify that users are given the appropriate access based on their job requirements. We tested a sample of new JOIN users, which included users from other organizations. All of these users had appropriate approvals documented for their access, in accordance with the Department's policies and procedures for system access.

# Municipal Affairs

## Summary of our recommendations

### Department

We make a new recommendation that the Department of Municipal Affairs clarify its method for initially estimating disaster recovery expenses—see below.

The Department has an outstanding recommendation from page 301 of our *October 2009 Report* to improve its management of the disaster recovery program by:

- setting timelines for key steps before federal government funding can be received
- periodically assessing and adjusting costs and recovery estimates based on current information

Flood damage can take several years to repair. The emphasis of the new recommendation is to improve the Department's methodology for estimating costs in the year of occurrence. The recommendation made in 2009 relates to periodically assessing cost estimates to repair damage caused by floods in prior years.

The Department implemented our *October 2010 Report* (page 183) recommendation to improve its procedures for granting and removing user access to its business applications and ensure those procedures are followed—see page 125.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Findings and recommendation

### Department

### Matters from the current audit

#### Disaster recovery expense estimates

**Background**

The Department provides funding for recovery from disasters that occur in the Province of Alberta. The funding is provided to individuals, businesses and other organizations, First Nations, municipalities and other Government of Alberta departments. The costs are reimbursed based on eligible costs incurred to repair the damage. The Department can recover a portion of these costs from the federal government's Disaster Financial Assistance Arrangements if the federal government approves funding for the disaster.

The Department hires a contractor to provide services such as assessing the costs of repairs, administering payments and tracking actual repair to each claimant. The Department records the total estimated cost minus payments to claimants as an accrued liability in its financial statements. Municipalities, First Nations and other departments provide an estimate of the costs to repair the damage. For individuals, businesses and other organizations, the Department uses an average estimated claim cost to estimate its liabilities for claims.

The Department reimburses municipalities, First Nations and other departments based on actual costs. When individuals, businesses and other organizations apply for a reimbursement, an assessor estimates the cost. The Department reimburses preset amounts for common items listed in the Department's disaster recovery guidebook, such as appliances. If the damage is structural or if property-specific repairs are needed, the claimant must submit receipts.

In June 2010, there was a flood in southern Alberta. The government passed an Order in Council[1] to approve this disaster as being eligible for the disaster recovery program. The Department estimated the recovery costs to be $120 million. For the year ended March 31, 2011, the Department accrued an $89 million liability to repair damage caused by the June 2010 flood.

1 Order in Council 218/2010 dated July 6, 2010

## Recommendation: disaster recovery estimation methodology

**18 RECOMMENDATION**

We recommend that the Department of Municipal Affairs clarify its method for initially estimating disaster recovery expenses.

### Criteria: the standards for our audit

Estimates of disaster recovery costs should be done using a systematic approach based on reasonable assumptions. The Department should have a clear basis for estimating its future liabilities.

### Our audit findings

**Key findings**

- Approved and documented methodology not used
- Assumptions were not reasonable

We examined the Department's method for estimating disaster recovery costs for the flood that occurred in southern Alberta in June 2010. To estimate its disaster recovery costs, the Department did not use an approved or documented methodology supported by reasonable assumptions.

For municipalities, First Nations and other departments, the Department used the estimated costs these entities provided and then added a 31% contingency. The Department based this contingency on two key assumptions:

- inflation would be 7% per year compounded over the next four years—compounded over four years, 7% becomes 31%. To predict this rate, management used inflation rates from the previous five years (2005 to 2009).
- the timing of the costs to repair the damage was estimated to occur at the end of four years rather than a portion of the construction costs occurring each year

These assumptions were not reasonable. The inflation rates of the previous five years did not provide a reasonable basis for estimating future inflation. The Department should have consulted information available from financial experts who predict inflation rates based on current and anticipated economic conditions.

We also found that construction on some projects had already begun in 2010. In previous disasters, the work to repair the damage took place over the four years after the disaster, not just in the fourth year after the damage occurred. It is reasonable to assume that this would also be the case for disaster recovery projects for the flood in 2010.

For small businesses, farms and individuals, management used an estimated average cost per case to arrive at the total liability estimate. However, management could not provide supporting calculations or analyses to show how they determined the average cost per case. An example of support for the estimate would include an analysis of the costs where assessments were already completed. We examined 14 case files and found the assessed cost of the damage in each file. The assessed cost for the damage could provide a more accurate estimate of the total of the repair costs, or could have been used as support for arriving at more accurate average cost per case.

We discussed this with management, and they reduced the accrued liability amount at March 31, 2011 by $7 million. Although an adjustment was made, a better approach would be to support their initial estimates with systematic analysis and reasonable assumptions.

### Implications and risks if recommendation not implemented

If the Department overestimates its accrued liabilities and expenses, there is a risk that excess funds are set aside that could be used elsewhere.

## Matters from previous-year audits

### User access management—implemented

#### Background

In our *October 2010 Report* (page 183), we recommended that the Department improve its procedures for granting and removing user access to its business applications and ensure those procedures are followed.

#### Our audit findings

Management has implemented a new user access administration control to grant and terminate access to the Grant Management System and Municipal Sustainability Initiative applications. The new process ensures that only authorized users have access to the applications.

# Seniors and Community Supports

## Summary

### Department

The Department of Seniors and Community Supports implemented our recommendation to improve their general computer controls—see below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

### Matters from prior-year audits

### General computer controls—implemented

#### Background

In our *October 2007 Report* (page 143), we recommended that the Department improve general computer controls by:

- identifying and protecting data based on its sensitivity
- following change-management procedures
- reviewing database logs
- reviewing user access to applications

#### Our audit findings

In 2011, management improved controls in its general computer control environment by reviewing user access based on the criticality and sensitivity of the information processed. They also completed back-out plans and post-implementation reviews on significant changes made to applications and infrastructure.

# Service Alberta

## Summary

### Ministry

The Ministry of Service Alberta has implemented:

- our October 2004 recommendation relating to contracting policies and procedures—see below
- our April 2010 recommendation on the land titles registration system—see page 130
- our October 2010 recommendation on MOVES access control—see page 130

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Ministry

### Matters from prior-year audits

### Contracting policies and procedures—implemented

#### Background

In our *October 2004 Report* (no. 20—page 177), we recommended that the Ministry develop comprehensive contracting policies and procedures, train its staff on how to follow the policies and procedures, and monitor staff compliance with them.

In our *October 2005 Report* (page 282), we reported that the Ministry had made satisfactory progress by implementing new contracting policies and procedures, establishing a Contract Review Committee to review all sole-sourced contracts and contracts over $25,000, and monitoring and training staff for compliance with policies and procedures.

#### Our audit findings

The Ministry has implemented our recommendation. Since February 2005, the Contract Review Committee has met regularly to review the awarding of sole-sourced contracts and contracts for more than $25,000. The Committee requires the contract management team to submit the contract packages for its review at least 90 days before the contracts start. This would allow the team enough time to seek alternatives or negotiate further with the contracting parties if the Committee does not approve the contract proposals. In September 2009, the Executive Committee has replaced the Contract Review Committee to approve contracts. The Executive Committee, which includes the Deputy Minister, meets frequently—once every two weeks—to review contract proposals.

Management has developed a contract management accountability framework to guide staff in managing contracts. Management also provides ongoing training to staff and monitors staff compliance with policies and procedures.

During 2010–2011, the Ministry documented the steps management must take for instances of non-compliance with its contract management policies. In December 2010, the Ministry defined minor and major infractions, as well as the steps the Executive Committee will take to investigate infractions. Management also provides continuous updates to staff on contracting policies and procedures.

We examined three instances of minor infractions in which contracts were signed and work began before the contracts had received Executive Committee approval. We found evidence that the Executive Committee discussed the reasons for the infractions and ultimately approved the contracts.

The Ministry also informed us of one instance of a major infraction during the year. Management detected the infraction during its routine accounting officer review process, and conducted an internal investigation. We noted that the infraction related to a contract that did not go through contract review and approval. Management took necessary action, including termination of the contract, which was unfavourable to the Ministry, and suspension of the

expenditure officer privileges for the person who approved the contract.

## MOVES access control—implemented

### Background

In our *October 2010 Report* (page 189), we recommended that the Ministry strengthen its control over granting user access to its Motor Vehicles System. The *Access to Motor Vehicle Information Regulation* restricts access to Albertans' motor vehicle information to approved entities only. To obtain access to MOVES, an entity must have a contract with the Ministry. Employees in the Ministry's Data Access and Contract Management Unit verify that access requests are from eligible entities, before granting the requests.

In 2009–2010, we noted that the Data Access and Contract Management Unit was not always involved if the Ministry received access requests from an entity that it had an ongoing business relationship with. When granting access to MOVES, the Ministry employees did not always refer to a list of designated contacts to make sure that requests were from valid sources. We recommended that the Ministry strengthen its controls over granting user access to MOVES.

### Our audit findings

The Ministry implemented our recommendation. Its updated *Motor Vehicles Policy and Systems User Guide* states that:

- all external access requests require approval by the Ministry's Data Access and Contract Management Unit to ensure that a valid contract is in place
- only the designated contact can request access

The Ministry also provides training to staff to ensure that they comply with the requirements in the updated policy guide.

We tested a sample of access requests during 2010–2011 and noted that the Data Access and Contract Management Unit approved all these access requests to ensure validity before the Ministry granted the access.

## Land titles registration system—implemented

### Background

In our *April 2010 Report* (page 110), we recommended that the Ministry improve its ability to detect fraudulent transactions and mitigate the risk of property fraud by:

- conducting regular analysis of land title data for suspicious transactions
- using the results of data analysis to focus investigations and prosecutions
- providing information about suspicious activities to Ministry staff to assist them in exercising their new legislative authority

In our original report, we described property fraud as title fraud and mortgage fraud. The focus of our work was mortgage fraud. The Ministry has systems to manage the risk of title fraud.

### Our audit findings

To underscore the notion that mitigating the risk of property fraud is also the responsibility of banking, and other professional organizations, the Ministry developed and began delivering training courses for stakeholders. This training examines land title products and how stakeholders can access the Ministry's database during the mortgage approval process to better understand a property's history and potential for fraud.

As well, the Ministry continues to educate land titles staff about property fraud and makes data available to stakeholders on request. A Ministry investigator with peace officer status[1] is assigned to the land titles office, advising staff and following up on unusual land titles transactions. The Ministry has not led the development of a proactive data analysis for identifying potential mortgage fraud. We note that such an analysis by stakeholders, with access to the Ministry's data, would accomplish the same goal. Notwithstanding a lack of proactive data analysis—which is not required by the Ministry's mandate—we conclude there has been sufficient progress to consider this recommendation implemented.

1 *The Peace Officer Act*, S.A. 2006, c.P-3.5

In our *April 2010 Report*, we also identified to the Ministry 30 properties where we had concluded there was some evidence of irregular transactions. We reviewed the work undertaken by the Ministry's Special Investigations Unit with respect to these 30 cases, and concluded that the cases received an appropriate amount of scrutiny, with some investigations still ongoing. We will monitor the progress of these investigations and may consider a broader systems audit of the Ministry's Special Investigations Unit operations at some future date.

# Solicitor General and Public Security

## Summary

### Alberta Gaming and Liquor Commission

The Alberta Gaming and Liquor Commission implemented a policy requiring regular, independent security assessments and regular threat and vulnerability assessments—see below.

## Our audit findings

### Alberta Gaming and Liquor Commission

#### Matters from prior-year audits

#### IT security controls—independent security assessment—progress report

**Background**

In our *October 2010 Report* (page 191), we reported that AGLC should obtain an external security and vulnerability assessment of high-risk systems and networks in its IT environment. AGLC promptly hired an independent contractor to perform a penetration test and vulnerability assessment on a number of its websites, to provide assurance that these services are well-protected from unauthorized access through hacking. However, AGLC did not have a policy or procedures in place to ensure it repeated the independent assessments periodically.

**Our audit findings**

**Key findings**

- AGLC has a policy for security assessments
- Security assessments are now performed regularly

AGLC has:

- approved and implemented a policy to conduct regular, independent threat and vulnerability assessments, as well as penetration tests, on its critical internet-facing web services and internal systems
- demonstrated that it is in compliance with its security policy
- performed multiple security assessments
- scheduled additional assessments

# Sustainable Resource Development

## Summary

### Department

The Department of Sustainable Resource Development implemented our recommendation to improve its IT control framework—see below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

### Matters from prior-year audits

#### IT control framework—implemented

**Background**

In our *October 2009 Report* (page 323), we made recommendations to improve various aspects of the Department's general computer controls environment, which included improvements needed with the design and implementation of controls for system user access, information security, data centre environmental controls and disaster recovery planning.

**Our audit findings**

In our 2010–2011 audit, we confirmed that management resolved these outstanding issues, and accordingly, the IT policies and control procedures have been designed, documented and implemented.

# Transportation

## Summary

### Department

The Department of Transportation implemented our recommendation to improve its process to license inspection facilities and technicians—see below.

For outstanding previous recommendations to the organizations that form the Ministry, please see our outstanding recommendations list on page 141.

## Our audit findings

### Department

### Matters from prior-year audits

### Licensing of inspection facilities and technicians—implemented

#### Background

In our *October 2004 Report* (no. 30—page 303), we recommended that the Department improve its process to license inspection facilities and technicians.

The Department requires that out-of-province vehicles and previously written-off vehicles be inspected before they can be licensed and that buses and commercial vehicles be inspected on regularly. The Department out-sources the inspections to private facilities. Both private inspection facilities and the technicians who perform the inspections must be licensed by the Department.

We made the recommendation because the Department:

- had not documented the terms and conditions under which a licence was granted to a facility or what constituted a breach under the legislation
- had not developed a code of conduct for technician and owners of inspection facilities
- did not audit facilities before licensing them as inspection facilities
- had not defined when examinations of technicians were required to prove competency to conduct inspections

#### Our audit findings

The Department implemented the recommendation by:

- implementing certificate processing procedures for licensing inspection facilities and technicians, and a code of practice for inspection facilities and technicians
- implementing policies and procedures that require all facilities to be audited before the province licenses them
- partnering with the Northern Alberta Institute of Technology to develop a competency examination that the Department may use as part of its progressive discipline process

AUDITOR GENERAL
*Alberta*

# Past Recommendations

## Report of the Auditor General of Alberta—November 2011

# Outstanding Recommendations

This list of outstanding recommendations is organized alphabetically by ministry. Each section includes outstanding recommendations for a ministry and the entities that report to it. We list outstanding recommendations under the entity that is responsible for its implementation. Where recommendations have been made to more than one entity, they appear more than once in the list. We have amended the wording of past recommendations to reflect the changes to ministry names and responsibilities as announced by government on October 12, 2011.

Beginning with this report, our outstanding recommendations list includes new recommendations in this report as well as those from previous reports that we have not yet reported as implemented. These recommendations include the following categories:

- **Key**—numbered recommendations that we believe are the most significant.
- **Numbered**—require a formal public response from the government. When implemented, these recommendations will significantly improve the safety and welfare of Albertans, the security and use of the province's resources, or governance and ethics processes in government.
- **Unnumbered**—in previous reports some recommendations were unnumbered; although important, these recommendations do not require a formal public response from government.

Each section in this list has two parts, indicating where management has informed us that either:

- the recommendation is still being implemented and not ready for a follow-up audit, or
- the recommendation has been implemented and is ready for a follow-up audit

Recommendations in each section are identified by a "8—x" if they were originally key recommendations, and by a "**3+**" for numbered recommendations that have been outstanding for three years or more. Although we recognize that some recommendations will take longer to implement, we encourage management to implement our key and numbered recommendations within three years. We confirm implementation of recommendations by conducting follow-up audits.

We currently have 243 outstanding recommendations—29 key, 108 numbered and 106 unnumbered:

| | | | | 3+ Years | | |
|---|---|---|---|---|---|---|
| | Key | Numbered | Unnumbered | Key | Numbered | Total |
| Ready for follow-up audits | 4 | 19 | 45 | 5 | 15 | **88** |
| Not yet ready for follow-up audits | 14 | 58 | 61 | 6 | 16 | **155** |
| **Total** | **18** | **77** | **106** | **11** | **31** | **243** |

The reports that contain these recommendations are on our website at www.oag.ab.ca.

# Advanced Education and Technology

## Department

The following recommendation is outstanding and not yet ready for a follow-up audit

**Cross-Institution recommendations: Enterprise risk management—April 2010, no. 17, p. 158**
We recommend that the Department of Advanced Education and Technology (through the Campus Alberta Strategic Directions Committee) work with post-secondary institutions to identify best practices and develop guidance for them to implement effective enterprise risk management systems.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Non-credit programs: Standards and expectations—April 2008, no. 1, p. 22**
We recommend that the Department of Advanced Education and Technology

- clarify its standards and expectations for non-credit programs and clearly communicate them to public post-secondary institutions
- work with institutions to improve the consistency of information that institutions report to the Department

**Non-credit programs: Monitoring—April 2008, no. 2, p. 23**
We recommend that the Department of Advanced Education and Technology implement effective processes to

- monitor whether institutions report information consistent with its expectations
- investigate and resolve cases where institutions' program delivery is inconsistent with its standards and expectations

## Alberta College of Art and Design

The following recommendations are outstanding and not yet ready for follow-up audits

**Preserving endowment assets—April 2009, p. 78**
We recommend that Alberta College of Art and Design define its goals for the use and preservation of the economic value of endowment assets (inflation proofing).

**Periodic financial reporting—April 2010, p. 160**
**(repeated once since April 2008)**
We again recommend that Alberta College of Art and Design improve its processes and controls to increase efficiency, completeness and accuracy of financial reporting.

**Journal entries—April 2010, p. 183**
We recommend that Alberta College of Art and Design

- ensure journal entries entered into the financial system are independently reviewed and approved
- develop a policy that defines the process for recording and approving journal entries and the documentation required to support the entry

**Controls over vendor master file set-up and maintenance—April 2011, p. 73**
We recommend that Alberta College of Art and Design improve its controls over the set-up, maintenance and monitoring of its vendor master list.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Information technology internal controls—October 2007, vol. 2, p. 21**
We recommend that the Alberta College of Art and Design strengthen internal controls for computer system access and server backups. We further recommend that the College develop a computer use policy.

**Bookstore operations—April 2010, p. 181**
We recommend that Alberta College of Art and Design maintain an effective system of internal controls to enhance the integrity of its bookstore operations.

**Professional development fund—April 2011, p. 71**
We recommend that Alberta College of Art and Design establish policies and guidelines for the management of its professional development fund.

**Code of conduct, conflict of interest and fraud policies—April 2011, p. 72**
We recommend that Alberta College of Art and Design

- develop, implement and enforce policies for code of conduct and conflict of interest
- develop and implement a fraud policy that clearly defines actions, responsibilities, authority levels and reporting lines in case of fraud allegations

**Controls over extended studies program—April 2011, p. 73**
We recommend that Alberta College of Art and Design improve its processes for the set-up and approval of fees and courses delivered under the extended studies program.

## Alberta Innovates—Technology Futures

The following recommendation is outstanding and not yet ready for a follow-up audit.

**Improve project management governance and controls for new information systems—November 2011, no. 4, p. 65**

We recommend that Alberta Innovates—Technology Futures improve its governance practices for the Corporate Information Systems project, by:

- establishing formal project management policies, processes, standards and controls for the Corporate Information System project
- establishing a project steering committee comprised of key stakeholders
- documenting and communicating the roles and responsibilities for all stakeholders, including the steering committee, board sub-committee and project sponsors
- updating the business case to set out the project's objectives that enables the steering committee to monitor and measure the project's progress
- formally assessing the impact of the project on other strategic business initiatives and periodically updating the assessment

## Athabasca University

The following recommendations are outstanding and not yet ready for follow-up audits.

**Information technology governance, strategic planning and project management: Improve governance and oversight of information technology—October 2010, no. 1, p. 21**

We recommend that Athabasca University continue to improve its information technology governance by:

- developing an integrated information technology delivery plan that aligns with the University's information technology strategic plan
- requiring business cases for information technology projects that include key project information such as objectives, costs-benefit assessments, risks and resource requirements to support the steering committees' and executive committee's decisions and ongoing project oversight
- improving the coordination and communication between the information technology steering committees in reviewing, approving and overseeing projects

**Information technology governance, strategic planning and project management: Improve portfolio and project management processes—October 2010, no. 2, p. 24**

We recommend that Athabasca University continue to improve its portfolio management and project management processes for information technology projects by:

- clarifying and communicating the mandate and authority of the project management office
- setting project management and architectural standards, processes and methodologies, and training project managers on these
- monitoring and enforcing project managers' adherence to these standards, processes and methodologies
- tracking and managing project dependencies on scope, risks, budgets and resource requirements

**Information technology governance, strategic planning and project management: Formalize information technology project performance monitoring and reporting—October 2010, p. 25**

We recommend that Athabasca University formalize and improve its monitoring and oversight of information technology projects by:

- improving its systems to quantify and record internal project costs
- providing relevant and sufficient project status information to the information technology steering and executive committees, and summarized project information to the Athabasca University Governing Council Audit Committee
- completing post-implementation reviews on projects to verify that expected objectives and benefits were met and identify possible improvements to information technology governance, strategic planning and project management processes

**Information technology governance, strategic planning and project management: Resolve inefficiencies in financial, human resources and payroll systems—October 2010, p. 27**

We recommend that Athabasca University complete its plans to resolve the inefficiencies in its financial, human resources and payroll systems.

**Establish information technology resumption capabilities—October 2010, no. 10, p. 111**

We recommend that Athabasca University:

- assess the risks and take the necessary steps to establish appropriate offsite disaster recovery facilities that include required computer infrastructure to provide continuity of critical information technology systems
- complete and test its existing disaster recovery plan to ensure continuous services are provided in the event of a disaster

## Grant MacEwan University

The following recommendations are outstanding and not yet ready for follow-up audits

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 165**

We recommend that Grant MacEwan University

- implement policies and guidance on appropriate expenses for events related to internal working sessions and for hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

**Preserve endowment assets—April 2010, p. 170**

We recommend that Grant MacEwan University improve its endowment and related investment policies and procedures by

- establishing and regularly reviewing a spending policy for endowments
- improving its processes to review its endowment related investments
- improving its reporting of investments and endowments to the audit and finance committee

**Improve and implement University policies—April 2010, no. 18, p. 174**

We recommend that Grant MacEwan University improve its control environment by implementing or improving

- a code of conduct and ethics policy and a process for staff to acknowledge they will adhere to its policies
- a process for staff to annually disclose potential conflicts of interest in writing so the University can manage them proactively
- a safe disclosure policy and procedure to allow staff to report incidents of suspected or actual frauds or irregularities
- a responsibility statement in its annual report to acknowledge management's role in maintaining an effective control environment

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Bookstore operations—April 2008, p. 186**

We recommend that Grant MacEwan University improve its systems to

- manage and report inventories
- monitor and account for the use of petty cash

**Parking services fees—April 2009, p. 82**

We recommend that Grant MacEwan University improve its systems to control, collect and account for parking services fees.

**Capital assets—April 2009, p. 85**

We recommend that Grant MacEwan University improve its capital asset processes by

- documenting its assessment on the appropriate accounting treatment for costs related to construction and renovation projects
- coding and recording transactions accurately the first time

**Adhere to signing authority limits—April 2010, p. 176**

We recommend that Grant MacEwan University improve its processes to ensure appropriate staff with proper signing authority approve contracts and purchases.

3+ **Ensure contracts are signed before work begins—April 2011, no. 3, p. 75**
**(repeated once since November 2006)**

We again recommend that Grant MacEwan University have signed contracts (interim or final) in place before projects start.

## Keyano College

The following recommendations are outstanding and not yet ready for follow-up audits

**Access controls to key financial systems—April 2011, p. 77**

We recommend that Keyano College improve access control policies and processes for its information systems to ensure that

- user access to networks and application systems is disabled when employees leave their employment
- user access to computer networks and systems is properly authorized and all staff and contractors comply with the computer use policy

**Monitor access to key financial systems—April 2011, p. 78**

We recommend that Keyano College develop a policy and processes for monitoring and investigating breaches of security to its information systems.

## Lakeland College

The following recommendation is outstanding and not yet ready for a follow-up audit

**Improve controls for staff to formally acknowledge code of conduct—April 2011, p. 79**
We recommend that Lakeland College enhance its code of conduct processes and require all employees to reconfirm compliance with the code of conduct regularly.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit

**Segregation of duties over payroll function—April 2011, p. 79**
**(repeated once since April 2009)**
We again recommend that Lakeland College adequately segregate access to the PeopleSoft payroll system. We also recommend that management review change reports generated from the payroll system for appropriateness.

## Medicine Hat College

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit

**Controls over cash and accounts receivable—April 2011, p. 80**
We recommend that Medicine Hat College improve controls over cash, accounts receivable and accounts receivable write-offs related to tuition by

- adequately segregating incompatible functions of preparing daily cash receipts, processing accounts receivable and writing off accounts receivable
- requiring registration clerks to use cash count sheets for controlling cash handling and reconciling cash handovers to the student accounts clerk

## NorQuest College

The following recommendation is outstanding and not yet ready for a follow-up audit

**Bookstore services: Segregation of duties in the bookstore—April 2010, p. 186**
We recommend that NorQuest College implement proper segregation of duties within its bookstore services.

Management has identified these recommendations as implemented—to be confirmed with a follow-up audit

**Procurement cards: Discrepancy log—April 2009, p. 88**
We recommend that NorQuest College improve controls to ensure that procurement cardholders comply with its procurement card policy.

**Procurement cards: Compliance with procedure card policy—April 2009, p. 89**
We recommend that NorQuest College ensure that its procurement card statements are supported by adequate documentation and are approved by an authorized individual before making payments.

## Olds College

The following recommendations are outstanding and not yet ready for follow-up audits

**Improve periodic financial reporting—April 2011, p. 68**
We recommend that Olds College improve its processes and controls over year-end financial reporting.

**Improve internal controls—April 2011, p. 81**
**(repeated once since April 2010)**
We again recommend that Olds College improve internal controls in the bookstore relating to sales and inventories.

## Portage College

The following recommendations are outstanding and not yet ready for follow-up audits

**Improve periodic financial reporting—April 2011, p. 68**
**(repeated once since April 2010)**
We again recommend that Portage College improve its financial reporting to its board and senior management by providing—at least quarterly—complete financial statements of financial position and actual year-to-date operating results.

**Improve controls over bookstore inventory—April 2011, p. 82**
We recommend that Portage College improve the accuracy of its perpetual inventory system at the bookstore.

## Red Deer College

The following recommendation is outstanding and not yet ready for a follow-up audit

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 167**
We recommend that Red Deer College

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- strengthen its processes to ensure staff follows its policies and processes for employee expense claims and corporate credit cards

## University of Alberta

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Strategic planning for research—October 2004, p. 252**
We recommend that the University of Alberta improve the integration of research into its strategic business plan by ensuring that:

- key performance measures and targets are identified with each strategy indicated in the plan
- the costs of achieving these targets are considered when making budget allocation decisions
- the faculty and other research administrative unit plans set out in clear, consistent terms, the extent to which faculties and units are planning to contribute to the achievement of these targets

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 167**
We recommend that the University of Alberta follow its policies and processes for employee expense claims and corporate credit cards.

## University of Calgary

The following recommendations are outstanding and not yet ready for follow-up audits

**Improving the control environment—October 2008, no. 21, p. 213**
We recommend that the University of Calgary improve the effectiveness of its control environment by:

- assessing whether the current mix of centralized and decentralized controls is appropriate to meet its business needs
- defining clear roles, responsibilities and accountabilities for control systems' design, implementation, and monitoring
- documenting its decentralized control environment and implementing training programs to ensure those responsible for business processes have adequate knowledge to perform their duties
- monitoring decentralized controls to ensure processes operate effectively

3+ **Research management: Planning for research capacity—October 2010, no. 4, p. 46**
**(repeated once since October 2004)**
We again recommend that the University of Calgary improve its human resources plans and develop a system to quantify and budget for the indirect costs of research.

3+ **Research management: Define research management roles and responsibilities—October 2010, no. 5, p. 48**
**(repeated once since October 2005)**
We again recommend that the University of Calgary define research management roles and responsibilities.

3+ **Research management: Research policies—October 2010, no. 6, p. 50**
**(repeated once since October 2005)**
We again recommend that the University of Calgary ensure all research policies are current and comprehensive. Specifically, the policies should identify who is responsible for monitoring compliance.

**Research management: Project management—October 2010, p. 52**
**(repeated once since October 2005)**
We again recommend that the University of Calgary and its faculties use project management tools for large, complex projects to ensure research is cost effective.

**Enterprise risk management—November 2011, no. 5, p. 67**
We recommend that the University of Calgary adopt an integrated risk management approach to identify and manage the risks that impact the University as a whole.

**Secure access to its PeopleSoft system—November 2011, no. 7, p. 68**
We recommend that the University of Calgary ensure access to its PeopleSoft system is secured and meets the University's security standards.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Systems over costs for internal working sessions and hosting guests—April 2010, p. 166**
We recommend that the University of Calgary:

- implement policies and guidance on appropriate expenses for internal working sessions and hosting guests
- follow its policies and processes for employee expense claims and corporate credit cards

**Improve IT change management controls—November 2011, no. 6, p. 67**
We recommend that the University of Calgary implement:

- an organization-wide IT change management policy with supporting procedures and standards
- processes to ensure the policy is consistently followed throughout the organization

## University of Lethbridge

The following recommendation is outstanding and not yet ready for a follow-up audit

3+ **Information technology internal control framework—October 2007, no. 21, vol. 2, p. 23**
We recommend that the University of Lethbridge implement an information technology control framework.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Clear and complete research policies—October 2008, p. 227**
We recommend that the University of Lethbridge improve systems to ensure that:
- financial research policies are current and comprehensive
- proper documentation is maintained for approving research accounts
- researchers, research administrators and financial services staff are aware of changes to financial policies and are properly trained to comply with the policies

**Improve endowment policies—October 2010, p. 118**
We recommend that the University of Lethbridge improve its endowment policies and procedures by:
- clarifying its goals for preserving the real value of endowments, and how it plans to achieve this
- tracking investment income between amounts for preserving the real value of investments and amounts available for spending

# Agriculture and Rural Development

## Department

The following recommendations are outstanding and not yet ready for follow-up audits

3+ **Evaluating program success: grant management—October 2005, no. 20, p. 113 (repeated once since October 2001)**
We again recommend that the Department of Agriculture and Rural Development evaluate the performance of its grant programs in meeting Ministry goals. This includes evaluating the grant programs themselves, as well as individual grants under the programs.

3+ **Reporting and dealing with allegations of employee misconduct—November 2006, no. 12, p. 46**
We recommend that the Department of Agriculture and Rural Development improve its systems for reporting and dealing with allegations of employee misconduct.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

3+ **Food safety: Alberta Agriculture's surveillance program—October 2006, no. 9, vol. 1, p. 88**
We recommend that the Department of Agriculture and Rural Development improve the administration of its food safety surveillance program. This includes:
- documenting its prioritization processes
- involving partners in the prioritization of projects
- ensuring conditions for the approval of specific projects are met and final approval recorded
- capturing costs for large projects
- monitoring the impact of surveillance projects
- considering whether regulatory support for the program is required

**Food safety: Alberta Agriculture's food safety information systems—October 2006, vol. 1, p. 94**
We recommend that the Department of Agriculture and Rural Development improve its food safety information systems. This includes:
- improving security and access controls
- ensuring complete, timely, and consistent data collection, and
- ensuring data gets onto the computerized data base

## Agriculture and Rural Development and Health and Wellness

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

3+ **Food safety: Integrated food safety planning and activities—October 2009, no. 11 , p. 107 (repeated once since October 2006)**

We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes:

- each provincial ministry defining its own food safety policies, objectives and measures (satisfactory progress)
- coordinating provincial food safety policies and planning so initiatives are integrated (satisfactory progress)
- ensuring provincial approaches align with initiatives being developed through federal/provincial/territorial committees (satisfactory progress)
- improving day-to-day coordination of provincial food safety activities
- encouraging the joint application of HACCP and HACCP related programs in Alberta , and (satisfactory progress)
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

3+ **Food safety: Accountability—October 2009, no. 13, p. 114 (repeated once since October 2006)**

We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

## Agriculture and Rural Development, Health and Wellness and Alberta Health Services

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

3+ **Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111 (repeated once since October 2006)**

We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

## Agriculture Financial Services Corporation

The following recommendations are outstanding and not yet ready for follow-up audits.

**Information technology risk assessment and control framework—October 2009, p. 168**

We recommend that Agriculture Financial Services Corporation:

- complete an information technology risk assessment to identify and rank the risks within its computing environment, linking to business objectives, and
- design and implement information technology controls to mitigate the risks it identifies

**Improve processes for conducting compliance audits—October 2010, no. 12, p. 124**

We recommend Agriculture Financial Services Corporation improve its processes for conducting compliance audits and investigations by:

- clearly defining the roles and responsibilities of the Program Cross Compliance and Investigations Group
- improving the coordination between the Program Cross Compliance and Investigations Group and program areas

**Lending controls—November 2011, no. 8, p. 74**

We recommend that the Agriculture Financial Services Corporation ensure its key lending controls operate as designed.

**AgriStability accrual process—November 2011, no. 9, p. 75**

We recommend that the Agriculture Financial Services Corporation ensure its procedures to develop the AgriStability accrual are properly documented and reviewed.

## Alberta Livestock and Meat Agency Ltd.

The following recommendations are outstanding and not yet ready for follow-up audits.

**Enterprise risk management—November 2011, no. 10, p. 78**

We recommend that the Alberta Livestock and Meat Agency Ltd. improve its risk management processes.

**Compliance with contracting procedures—November 2011, no. 11, p. 79**

We recommend that the Alberta Livestock and Meat Agency Ltd. ensure compliance with its contracting procedures.

## Culture and Community Services

### Ministry and Tourism, Parks and Recreation

The following recommendation is outstanding and not yet ready for a follow-up audit.

**Computer control environment—October 2007, vol. 2, p. 172**

We recommend that the Ministry of Tourism, Parks, Recreation and Culture and Community Services work with Service Alberta to:

- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

## Education

### Ministry and Department

The following recommendation is outstanding and not yet ready for a follow-up audit.

**Consolidation processes—November 2011, no. 12, p. 81**

We recommend that the Department of Education improve its processes to consolidate the financial information of school jurisdictions into the Ministry of Education's financial statements.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

**School board budget process—October 2006, no. 25, vol. 2, p. 65**

We recommend that Alberta Education improve the school board budget process by:

3+

- providing school boards as early as possible with the information needed to prepare their budgets (e.g. estimates of operating grant increases and new grant funding, and comments on financial condition evident from their latest audited financial statements)
- requiring school boards to use realistic assumptions for planned activities and their costs and to disclose key budget assumptions to their trustees and the Ministry
- establishing a date for each school board to give the Ministry a trustee-approved revised budget based on actual enrolment and prior year actual results
- reassessing when and how the Ministry should take action to prevent a school board from incurring an accumulated operating deficit

**School board interim reporting—October 2006, no. 26, vol. 2, p. 68**

We recommend that Alberta Education work with key stakeholder associations to set minimum standards for the

3+ financial monitoring information provided to school board trustees.

We also recommend that Alberta Education work with the key stakeholder associations to provide information to trustees about:

- the characteristics of a strong budgetary control system
- best practices for fulfilling financial monitoring responsibilities

**Business cases—October 2007, vol. 2, p. 45**

We recommend that the Department of Education establish a policy for developing business cases.

### Northland School Division No. 61

The following recommendations are outstanding and not yet ready for follow-up audits.

**Obtaining an interest in land—October 2010, no. 13, p. 133**

We recommend that Northland School Division No. 61 develop processes to ensure it obtains a valid legal interest in land before beginning construction of schools.

**Improving financial reporting—October 2010, no. 14, p. 134**

We recommend that the Northland School Division No. 16 improve its financial reporting by:

- preparing and presenting quarterly financial information to the Official Trustee
- regularly reviewing and reconciling general ledger accounts
- preparing year-end financial statements promptly

## Energy

### Department

The following recommendations are outstanding and not yet ready for follow-up audits.

3+ **Royalty review systems: Improving annual performance measures—October 2007, no. 11, vol. 1, p. 124**

We recommend that the Department of Energy improve its annual performance measures that indicate royalty regime results.

**Sustaining the continued accuracy of the revenue forecast system—October 2009, no. 21, p. 199**
We recommend that the Department of Energy improve the controls and documentation supporting the revenue forecast model to help ensure the continued accuracy of the forecast system.

**Improving processes to recognize royalty revenue estimates in the financial statements—November 2011, no. 13, p. 89**
We recommend that the Department of Energy improve its controls for:

- using consistent methods to calculate bitumen royalty estimates
- conducting timely reviews of the calculations used to estimate natural gas royalty revenue

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

**Alberta's bioenergy programs—October 2008, no. 25, p. 255**
We recommend that the Department of Energy:

- undertake and document its analysis to quantify the environmental benefits of potential bioenergy technologies to be supported in Alberta
- establish adherence to the *Nine-Point Bioenergy Plan* as a criterion within its bioenergy project review protocol, and require grant applications to indicate the projected environmental benefits of proposed projects
- prior to awarding grants in support of plant construction, require successful applicants to quantify—with a life cycle assessment—the positive environmental impact relative to comparable non-renewable energy products

## Energy Resources Conservation Board

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

3+ **Liability management for suspension, abandonment and reclamation activities—October 2005, no. 30, p. 173**
We recommend that the Energy Resources Conservation Board improve its systems by monitoring the timeliness in which industry restores wells, facilities and pipelines to a safe and stable condition after permanent dismantling.

# Environment and Water

## Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits.

**Climate change: Planning—October 2008, no. 9, p. 97**
We recommend that the Ministry of Environment and Water improve Alberta's response to climate change by:

- establishing overall criteria for selecting climate-change actions
- creating and maintaining a master implementation plan for the actions necessary to meet the emissions-intensity target for 2020 and the emissions-reduction target for 2050
- corroborating—through modeling or other analysis—that the actions chosen by the Ministry result in Alberta being on track for achieving its targets for 2020 and 2050

**Climate change: Monitoring processes—October 2008, no. 10, p. 100**
We recommend that for each major action in the *2008 Climate Change Strategy*, the Ministry of Environment and Water evaluate the action's effect in achieving Alberta's climate change goals.

**Climate change: Guidance to verifiers of facility baseline and compliance reports—October 2009, no. 3, p. 42**
We recommend that the Department of Environment and Water strengthen its baseline and compliance guidance for verifiers by improving the description of the requirements for:

- the nature and extent of testing required
- the content of verification reports
- assurance competencies

**Climate change: Technical review—October 2009, p. 45**
We recommend that the Department of Environment and Water strengthen its technical review processes by:

- requiring facilities to provide a process map with their compliance reporting and
- ensuring staff document their follow-up activity and decisions in the Department's regulatory database

**Climate change: Outsourced service providers—October 2009, p. 49**
We recommend that the Department of Environment and Water develop controls to gain assurance that data hosted or processed by third parties is complete accurate and secure.

We also recommend that the Department of Environment and Water formalize its agreement with its service provider for the Alberta Emissions Offset Registry.

**Climate change: Cost-effectiveness of regulatory processes—October 2009, no. 5, p. 51**
We recommend that the Department of Environment and Water assess the cost-effectiveness of the *Specified Gas Emitters Regulation*.

3+ **Financial security for land disturbances—October 2009, no. 23, p. 207**
**(repeated two times since October 1999)**
We again recommend that the Department of Environment and Water implement a system for obtaining sufficient financial security to ensure parties complete the conservation and reclamation activity that the Department regulates.

**Managing Alberta's Water Supply: Backlog of Water Act applications—April 2010, no. 4, p. 65**
We recommend that the Department of Environment and Water minimize the backlog of outstanding applications for *Water Act* licences and approvals.

**Managing Alberta's Water Supply: Assessing compliance with the Water Act—April 2010, no. 5, p. 68**
We recommend that the Department of Environment and Water ensure its controls provide adequate assurance that performance in the field by licence and approval holders as well as others complies with the *Water Act*.

**Managing Alberta's Water Supply: Wetland compensation—April 2010, no. 6, p. 71**
We recommend that the Department of Environment and Water formalize its wetland compensation relationships and control procedures.

**Managing Alberta's Water Supply: Watershed Planning and Advisory Councils grants and contracts—April 2010, no. 7, p. 73**
We recommend that the Department of Environment and Water strengthen its control of grants and contracts with Watershed Planning and Advisory Councils.

**Climate change: Clarify guidance—November 2011, no. 1, p. 15**
**(repeated once since October 2009)**
We again recommend the Department of Environment and Water clarify the guidance it provides to facilities, verifiers, offset project developers and offset protocol developers, to ensure they consistently follow the requirements in place to achieve the Alberta government's emissions reduction targets.

**Climate change: Ensure all protocols meet new standard, and improve transparency—November 2011, no. 2, p. 21**
We recommend the Department of Environment and Water implement processes to ensure that all approved protocols adhere to its protocol development standard.

We also recommend the Department of Environment and Water improve its transparency by making key information about how protocols are developed publicly available.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

3+ **Drinking water: Approvals and registrations—October 2006, no. 1, vol. 1, p. 37**
We recommend that the Department of Environment and Water make its system to issue approvals and registrations more effective by:

- strengthening supporting processes such as training, manuals, checklists, and quality control for approvals and registrations
- ensuring that applications are complete and legislatively compliant
- documenting important decisions in the application and registration processes
- processing applications and conversions promptly
- maintaining consistency in the wording of approvals and registrations across the province, and
- following up short-term conditions in approvals

3+ **Drinking water: Inspection system—October 2006, no. 2, vol. 1, p. 43**
We recommend that the Department of Environment and Water improve its drinking water inspection processes by:

- applying the same inspection frequency targets to all waterworks regulated by the *Environmental Protection and Enhancement Act*
- ensuring inspectors receive sufficient training in waterworks systems and operations
- revising documentation tools and practices, including making them more risk focused, and
- informing operators promptly of inspection results, ensuring operators respond appropriately and concluding on each inspection

**Drinking water: Communicating with partners—October 2006, vol. 1, p. 48**
We recommend that the Department of Environment and Water at the district level expand its communication with partners involved in drinking water matters.

3+ **Drinking water: Information systems—October 2006, no. 4, vol. 1, p. 52**
We recommend that the Department of Environment and Water improve the information systems used to manage its drinking water businesses by:
- updating the Environmental Management System forms and improving reporting capacity
- coordinating regional, district, and personal information systems to avoid overlap and encourage best practice, and
- using data to improve program effectiveness and efficiency

3+ **Drinking water: Supporting drinking water goals—October 2006, no. 5, vol. 1, p. 55**
We recommend that the Department of Environment and Water ensure that its legislation, programs, and practices support its new drinking water goals. This includes:
- clarifying how approvals will move facilities towards current standards
- delivering central initiatives that enhance the drinking water program
- determining how the Department should promote policy initiatives such as regionalization, including the financing of those initiatives
- establishing how the Department can partner with others while mitigating the risks inherent in partnering, and
- reinforcing a "beyond compliance" mindset with Department staff

3+ **Water well drilling—October 2006, no. 28, vol. 2, p. 84**
We recommend that the Department of Environment and Water improve its system to regulate water well drilling by:
- ensuring that drillers and drilling companies meet approval requirements
- implementing controls to ensure that water well drilling reports are:
  - received on time
  - complete and accurate, and
  - accurately entered into the Groundwater Information System
- obtaining assurance that water well drilling activities in the field meet legislated standards

**Climate change: Public reporting—October 2008, no. 11, p. 101**
We recommend that the Ministry of Environment and Water improve the reliability, comparability and relevance of its public reporting on Alberta's success and costs incurred in meeting climate-change targets.

**Climate change: Data quality—October 2009, p. 40**
We recommend that the Department of Environment and Water strengthen its guidance for baseline and compliance reporting by:
- clarifying when uncertainty calculations must be done
- prescribing the minimum required quality standards for data in terms of minimum required frequency of measurement and connection to the period being reported on
- describing the types of data controls that facilities should have in place

**Climate change: Error correction threshold—October 2009, p. 50**
We recommend the Department of Environment and Water establish an error correction threshold that considers not only the percentages of emissions or production, but also the dollar impact on the Climate Change and Emissions Management Fund.

**Improve and document grant monitoring activities—October 2010, no. 15, p. 143**
We recommend that the Department of Environment and Water improve its monitoring of compliance with conditions in grant agreements and retain evidence of the review.

## Finance

### Ministry and Department

The following recommendation is outstanding and not yet ready for a follow-up audit:

**User access—October 2008, p. 272**
We recommend that the Department of Finance review all user access to business data to ensure that unauthorized changes are prevented and appropriate incident monitoring exists to ensure systems issues are promptly resolved.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits:

**Oversight of financial institutions: Improve accountability—April 2010, no. 12, p. 96**
We recommend that the Department of Finance clarify its business objectives for Alberta Treasury Branches, within their Memorandum of Understanding, in relation to the level of risk the Department expects Alberta Treasury Branches to take.

**Oversight of financial institutions: Completion of risk assessments—April 2010, p. 100**
We recommend that the Department of Finance complete risk assessments and evaluate the quality of the regulated entities' risk management practices.

**Oversight of financial institutions: Implementation plan for regulatory and supervisory frameworks—April 2010, no. 13, p. 97**
We recommend that the Department of Finance develop an implementation plan for its approach to regulating and supervising regulated financial institutions.

**Oversight of financial institutions: Monitoring legislative compliance—April 2010, no. 14, p. 101**
We recommend that the Department of Finance strengthen its processes to ensure identified legislative non-compliance matters are remediated.

**Oversight of financial institutions: Improve transparency—April 2010, p. 102**
We recommend that the Department of Finance:
- clearly identify which guidelines and supervisory rules are applicable for the regulated entities
- develop processes to monitor compliance with the guidelines
- assess how risks are mitigated for those guidelines and supervisory rules that are not applicable

## Alberta Capital Finance Authority

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

**Additional skilled resources required—April 2009, p. 103**
We recommend that management of Alberta Capital Finance Authority secure additional skilled resources to help implement new required financial accounting standards and to ensure the cost-effective preparation and management review of its annual financial statements.

## Alberta Investment Management Corporation

The following recommendations are outstanding and are not yet ready for follow-up audits.

**Internal control certification—October 2008, no. 32, p. 282**
We recommend that the Alberta Investment Management Corporation introduce a process to prepare to internal control certification by:
- ensuring that its strategic plan includes internal control certification
- developing a top-down, risk-based process for internal control design
- selecting an appropriate internal control risk-assessment framework
- considering sub-certification processes, with direct reports to the chief executive officer and chief financial officer providing formal certification on their areas of responsibility
- ensuring that management compensation systems incorporate the requirement for good internal control
- using a phased approach to assess the design and operating effectiveness of internal controls

**Help clients meet financial reporting requirements—October 2010, no. 17, p. 156**
We recommend that the Alberta Investment Management Corporation identify financial reporting requirements in its investment management agreements with clients. The Alberta Investment Management Corporation should meet with the clients to understand their financial reporting frameworks, their financial accounting requirements and the investment-related information they need to prepare financial statements.

**Improve controls over investment general ledger—October 2010, no. 18, p. 157**
We recommend that the Alberta Investment Management Corporation implement additional control procedures so that the Corporation itself can ensure the completeness and accuracy of its Genvest investment general ledger.

**Strengthen information technology change management controls—October 2010, p. 158**
We recommend that the Alberta Investment Management Corporation strengthen its information technology change management controls to ensure that it adequately assesses the risks of changes, and does not make changes outside of the change management process.

**Investment risk IT system—November 2011, no. 14, p. 97**
We recommend that the Alberta Investment Management Corporation improve its controls over the investment risk IT system.

**AIMCo's revenue from cost recoveries—November 2011, no. 15, p. 99**
We recommend that the Alberta Investment Management Corporation reconcile its revenue from cost recoveries reported in its financial statements to the total fees it recovers from its clients and investment pools.

## ATB Financial

The following recommendations are outstanding and not yet ready for follow-up audits.

**Treasury management: Liquidity simulations—October 2008, p. 128**
We recommend that Alberta Treasury Branches further expand its use of liquidity simulations as a forward looking liquidity risk measurement tool. We also recommend that the Asset Liability Committee and the Board Oversight Committee consider whether the results of liquidity simulations indicate a need to modify its business plan.

**Treasury management: Interest rate risk modeling and stress testing—October 2008, p. 134**
We recommend that Alberta Treasury Branches define its significant interest rate risk exposures and model those significant exposures to assess the effects on future financial results.

**Treasury management: Treasury information systems—October 2008, p. 138**
We recommend that Alberta Treasury Branches:
- evaluate its current treasury information systems against its business requirements
- develop and implement a treasury information technology plan to upgrade its tools.

**Treasury management: Treasury policies—October 2008, p. 139**
We recommend that Alberta Treasury Branches implement the updated investment and derivative policies for changes arising from its recent review of those policies. We also recommend that Alberta Treasury Branches review the financial risk management policy.

**Internal control weaknesses—October 2008, no. 29, p. 278**
We recommend that Alberta Treasury Branches validate and approve business processes and internal control documentation developed by its internal control group and implement plans to resolve identified internal control weaknesses.

**Securitization policy and business rules—October 2008, no. 31, p. 280**
We recommend that Alberta Treasury Branches develop and implement a securitization policy and securitization business rules.

**Internal controls—October 2009, p. 221**
We recommend that the Alberta Treasury Branches Strategic Steering Committee receive the appropriate assurance from the project leadership team that the organization's control objectives have been satisfied before the user acceptance testing phase of the project is complete.

**Organization-wide information technology oversight—October 2009, no. 24, p. 222**
We recommend that Alberta Treasury Branches improve the efficiency and effectiveness of its computing environment by developing a process to ensure all Alberta Treasury Branch business units adopt and follow an organization-wide information technology governance and control framework.

**Service auditor reports: User control considerations—October 2009, p. 227**
We recommend that Alberta Treasury Branches improve its processes related to service providers by ensuring its business areas:
- receive service provider audit reports
- review service provider audit reports and assess the impact of identified internal control weaknesses
- put end-user controls in place to complement service provider controls.

**New banking system internal controls—November 2011, no. 16, p. 102**
We recommend that ATB Financial confirm that the key controls in the new banking system, as identified in its risk and control matrices, are implemented and operate effectively.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

**Treasury management: Interest rate risk controls—October 2008, p. 136**
We recommend that Alberta Treasury Branches put in place controls necessary to ensure consistent measurement of interest rate risk.

**Treasury management: Role and use of middle office—October 2008, p. 137**
We recommend that Alberta Treasury Branches expand the role of its middle office[1] to include responsibilities for monitoring interest rate risk. We also recommend that management ensure the middle office has the necessary resources to monitor foreign exchange activities and fulfill its other responsibilities.

1 The middle office monitors market risk, values securities and derivatives, and ensures compliance with certain treasury limits/policies.

**Improve internal controls over fair value calculations—October 2010, p. 153**
**(repeated once since October 2008)**
We again recommend that Alberta Treasury Branches improve controls over the calculation of the fair value for its derivatives and securities by

- implementing a peer review and approval process for inputs and assumptions used in the valuation models. Alternatively, for derivatives, management could use a benchmarking process to assess reasonability of its calculated fair values
- documenting the results of this work consistently

**Treasury management: Interest rate risk model assumptions—April 2011, no. 1, p. 48**
**(repeated once since October 2008)**
We again recommend that Alberta Treasury Branches improve processes for creating, applying and validating assumptions used in its interest rate risk models.

## Health and Wellness

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits

**Implementing the Provincial Mental Health Plan—The accountability framework—April 2008, no. 4, p. 77**
We recommend that the Department of Health and Wellness ensure there is a complete accountability framework for the *Provincial Mental Health Plan* and mental health services in Alberta.

**Electronic health records: Project management—October 2009, no. 7, p. 75**
We recommend the Department of Health and Wellness execute publicly funded electronic health record projects and initiatives in accordance with established project management standards.

**Electronic health records: Monitoring the electronic health records—October 2009, no. 8, p. 78**
We recommend the Department of Health and Wellness proactively monitor access to the portal (Netcare), through which the electronic health records can be viewed, reviewing it for potential attacks, breaches and system anomalies.

**Electronic health records: User access management—October 2009, p. 80**
We recommend that the Department of Health and Wellness ensure that its user access management policies are followed and that user access to health information is removed when access privileges are no longer required.

**Accountability for conditional grants—October 2009, p. 252**
**(repeated twice since October 2002)**
We again recommend that the Department of Health and Wellness improve its control processes to ensure accountability for conditional grants.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit

**Monitoring infection prevention and control processes (compliance monitoring activities)—October 2009, p. 248**
We recommend that the Department of Health and Wellness examine and clarify the role of its Compliance Assurance Branch in the implementation and execution of infection prevention and control compliance monitoring in Alberta.

### Health and Wellness and Agriculture and Rural Development

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

3+ **Food Safety: Integrated food safety planning and activities—October 2009, no. 11, p. 107**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development, in cooperation with Alberta Health Services and federal regulators, improve planning and coordination of food safety activities and initiatives. This includes

- each provincial ministry defining its own food safety policies, objectives and measures (satisfactory progress)
- coordinating provincial food safety policies and planning so initiatives are integrated (satisfactory progress)
- ensuring provincial approaches align with initiatives being developed through federal/provincial/territorial committees (satisfactory progress)
- improving day-to-day coordination of provincial food safety activities
- encouraging the joint application of HACCP and HACCP related programs in Alberta, and (satisfactory progress)
- improving cooperation and working relationships among provincial and federal partners such as the First Nations and Inuit Health Branch and the Canadian Food Inspection Agency

3+ **Food safety: Accountability—October 2009, no. 13, p. 114**
**(repeated once since October 2006)**
We again recommend that the Departments of Health and Wellness and Agriculture and Rural Development improve reporting on food safety in Alberta.

## Health and Wellness, Agriculture and Rural Development and Alberta Health Services

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

3+ **Food safety: Eliminating gaps in food safety inspection coverage—October 2009, no. 12, p. 111**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services and the Departments of Health and Wellness and Agriculture and Rural Development, working with federal regulators, eliminate the existing gaps in food safety coverage in Alberta. Gaps include:

- mobile butchers
- consistently administering the *Meat Facility Standard*
- coordinating inspections in the "non-federally registered" sector

## Departments of Health and Wellness and Alberta Health Services

The following recommendations are outstanding and not yet ready for follow-up audits.

3+ **Seniors care: Effectiveness of services in long-term care facilities—October 2005, no. 7, p. 59**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the Department of Seniors, assess the effectiveness of services in long-term care facilities.

3+ **Seniors care: Effectiveness of services in long-term care facilities—October 2005, no. 8, p. 59**
We recommend that the Department of Health and Wellness, working with the Department of Seniors, collect sufficient information about facility costs from Alberta Health Services and long-term care facilities to make accommodation rate and funding decisions.

**Implementing the Provincial Mental Health Plan: Implementation systems—April 2008, no. 3, p. 72**
We recommend that the Department of Health and Wellness, working with other mental health participants, strengthen implementation of the *Provincial Mental Health Plan* by improving:

- implementation planning
- the monitoring and reporting of implementation activities against implementation plans, and
- the system to adjust the *Plan* and implementation initiatives in response to changing circumstances.

**Mental health: Standards—October 2008, no. 16, p. 162**
We recommend that the Department of Health and Wellness and Alberta Health Services create provincial standards for mental health services in Alberta.

**Mental health: Funding, planning, and reporting—October 2008, p. 186**
We recommend that the Department of Health and Wellness and Alberta Health Services ensure the funding, planning, and reporting of mental health services supports the transformation outlined in the *Provincial Mental Health Plan* as well as system accountability.

**Mental health: Aboriginal and suicide priorities—October 2008, p. 190**
We recommend that the Department of Health and Wellness and Alberta Health Services consider whether the implementation priority for aboriginal and suicide issues is appropriate for the next provincial strategic mental health plan.

**Electronic health records: Oversight and accountability for electronic health records—October 2009, no. 6, p. 73**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the Electronic Health Records Governance Committee, improve the oversight of electronic health record systems by:

- maintaining an integrated delivery plan that aligns with the strategic plan
- improving systems to regularly report costs, timelines, progress and outcomes.

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

**Food safety: Tools to promote and enforce food safety—October 2006, vol. 1, p. 83**
We recommend that Alberta Health Services and the Department of Health and Wellness consider a wider range of tools to promote and enforce food safety.

## Alberta Health Services

The following recommendations are outstanding and not yet ready for follow-up audits.

**Performance measures for surgical services—October 2001, p. 135**
We recommend that Alberta Health Services establish a comprehensive set of outcome-based performance measures for surgical facility services and incorporate these standards of performance into ongoing monitoring of contracted facilities.

**Seniors care: Compliance with Basic Service Standards—October 2005, no. 6, p. 58**
We recommend that the Department of Health and Wellness and Alberta Health Services, working with the Department of Seniors, improve the systems for monitoring the compliance of long-term care facilities with the *Basic Service Standards*. (Outstanding with respect to Alberta Health Services only.)

**Seniors care: Information to monitor compliance with legislation—October 2005, p. 61**
We recommend that the Department of Health and Wellness, working with Alberta Health Services and the Department of Seniors, identify the information required from long-term care facilities to enable the Departments and Alberta Health Services to monitor their compliance with legislation. (Outstanding with respect to Alberta Health Services only.)

**Contracting practices: Internal controls—November 2006, no. 1, p. 14**
We recommend that Alberta Health Services management improve controls over contracting by:
- ensuring adequate segregation of duties exists over the contracting process
- monitoring and verifying contractors' compliance with contract terms and conditions

**Contracting practices: Board governance—November 2006, no. 3, p. 17**
We recommend that the Board, at least annually, receive reports from management on the design and effectiveness of the Alberta Health Services internal controls.

**Mental health: Housing and supportive living—October 2008, no. 17, p. 164**
We recommend that Alberta Health Services encourage mental health housing development and provide supportive living programs so mental health clients can recover in the community.

**Mental health: Concurrent disorders—October 2008, no. 18, p. 168**
We recommend that Alberta Health Services strengthen integrated treatment for clients with severe concurrent disorders (mental health issues combined with addiction issues).

**Mental health: Not-for-profit organizations—October 2008, p. 169**
We recommend that Alberta Health Services improve relationships with not-for-profit organizations to provide better coordinated service delivery.

**Mental health: Gaps in service—October 2008, no. 19, p. 171**
We recommend that Alberta Health Services reduce gaps in mental health delivery services by enhancing:
- mental health professionals at points of entry to the system
- coordinated intake
- specialized programs in medium-sized cities
- transition management between hospital and community care

**Mental health: Provincial coordination—October 2008, p. 176**
We recommend that Alberta Health Services coordinate mental health service delivery across the province better by:
- strengthening inter-regional coordination
- implementing standard information systems and data sets for mental health
- implementing common operating procedures
- collecting and analyzing data for evidence-based evaluation of mental health programs

**Mental health: Community-based service delivery—October 2008, p. 181**
We recommend that Alberta Health Services strengthen service delivery for mental health clients at regional clinics by improving:
- wait time management
- treatment plans, agreed with the client
- progress notes
- case conferencing
- file closure
- timely data capture on information systems
- client follow up and analysis of recovery

**Expense claims and corporate credit cards controls—October 2008, p. 311**
We recommend that Alberta Health Services strengthen and follow its policies and processes for employee expense claims and corporate credit cards. We also recommend that Alberta Health Services develop and implement policies and guidance on appropriate expenses for hosting and working sessions.

**Contract documentation—October 2008, p. 312**
We recommend that Alberta Health Services develop and implement a sole-sourcing policy for contracts and ensure that sole-sourcing is clearly documented and justified. We also recommend Alberta Health Services ensure contract amendments, including changes to deliverables, are documented and agreed to by both parties.

3+ **Food safety: Information systems—October 2009, no. 10, p. 99 (repeated once since October 2006)**
We again recommend that Alberta Health Services, supported by the Department of Health and Wellness, improve their automated food safety information systems. This includes:
- enhancing system management, security, and access control
- ensuring data consistency
- ensuring that service level agreements are in place
- developing reporting capacity for management and, accountability purposes

**Information technology control policies and processes—October 2009, no. 29, p. 262**
We recommend that Alberta Health Services:
- develop an information technology control framework, including appropriate risk management processes and controls, for the management of its information technology resources
- monitor compliance with security policies, implementing effective change management processes and improving passwords controls

**Capital project monitoring systems—October 2009, no. 32, p. 271**
We recommend that Alberta Health Services improve the efficiency and effectiveness of its financial capital project monitoring and reporting systems and processes by:
- implementing common systems, policies and procedures to track and monitor key financial information
- providing relevant, timely and accurate information to Executive Management and the Audit and Finance Committee

**Expenditure policies and approvals—October 2009, p. 277**
We recommend that Alberta Health Services improve the efficiency and effectiveness of its expense approval controls by:
- developing and implementing a clear and comprehensive expenditure approval policy
- automating the expenditure controls within the purchasing system

**Approval of drug purchases—October 2009, p. 278**
We recommend that Alberta Health Services improve controls for drug purchases by ensuring they are properly approved and duties are appropriately segregated.

**Physician recruitment incentives—October 2009, p. 279**
We recommend that Alberta Health Services improve controls for physician recruitment incentives by developing and implementing a policy that identifies:
- criteria and approvals required for granting loans, income guarantees and relocation allowances
- monitoring and collection procedures for physician loans

**Financial operations transition plan—October 2010, no. 19, p. 164**
We recommend that Alberta Health Services prepare and implement a formal transition plan for the organization's finance operations. The plan should include and integrate the following:
- assessing the resources, timelines and critical path needed to consolidate the general ledger and sub-ledger systems
- ensuring rigorous change management controls are applied before implementing application system changes
- harmonizing financial reporting policies and processes across the organization
- determining the adequate amount of human resources and skill levels required to implement the plan and then keep the processes operational

**Effectiveness of insurance reciprocal—October 2010, no. 21, p. 167**
We recommend that Alberta Health Services assess the effectiveness of its arrangement with the *Liability and Property Insurance Plan* as a risk management tool, and assess the resulting accounting implications.

**Accounting for restricted contributions—October 2010, no. 22, p. 168**
We recommend that Alberta Health Services implement consistent and efficient accounting processes for externally restricted contributions to assure the Alberta Health Services Board that it is complying with the restrictions attached to those contributions.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Food safety: Inspection programs—October 2009, no. 9, p. 93**
**(repeated once since October 2006)**
We again recommend that Alberta Health Services improve their food establishment inspection programs. Specifically, Alberta Health Services should

- inspect food establishments following generally accepted inspection frequency standards
- ensure that inspections are consistently administered and documented
- follow up critical violations promptly to ensure that food establishments have corrected those violations
- use their enforcement powers to protect Albertans from the highest risk food establishments (satisfactory progress)

**Supplementary retirement plans—October 2009, no. 28, p. 260**
We recommend that Alberta Health Services review existing supplementary retirement plans and

- understand the terms and conditions for each plan
- develop clear and consistent policies and processes for administering them
- obtain actuarial valuations, using appropriate and consistent assumptions, for the plans
- understand the impact of funding options
- ensure sufficient funds are available to meet plan obligations

**Capital project funding and approval—October 2009, no. 31, p. 269**
We recommend that Alberta Health Services

- obtain appropriate approval from the Minister of Health and Wellness and secure adequate capital funding before starting capital projects that are internally funded or debt financed
- ensure budgets include the estimated future operating costs associated with new capital

**Funding agreements for capital projects—October 2010, no. 20, p. 166**
We recommend that Alberta Health Services ensure that funding agreements are signed prior to commencement of construction of capital projects, and are formally amended when there are significant changes in the scope of a capital project.

## Human Services

### Department

The following recommendations are outstanding and not yet ready for follow-up audits

**Child intervention services: Accreditation systems for service providers—October 2007, no. 7, vol. 1, p. 82**
We recommend that the Department of Human Services evaluate the cost-effectiveness of accreditation systems and the assurance they provide.

**Child intervention services: Department compliance monitoring—October 2007, no. 8, vol. 1, p. 83**
We recommend that the Department of Human Services improve compliance monitoring processes by

- incorporating risk-based testing in case-file reviews
- providing feedback to caseworkers on monitoring results of case-file reviews
- obtaining and analyzing information on Authorities' monitoring of service providers

Management has identified these recommendation as implemented—to be confirmed with follow-up audits

**Daycare and day home regulatory compliance monitoring: Documentation and training—October 2010, p. 37**
We recommend that the Department of Human Services, working with the Child and Family Services Authorities, review documentation and training requirements for monitoring licensed and approved programs to ensure requirements are being met.

**Occupational Health and Safety: Promoting and enforcing compliance—April 2010, no. 3, p. 39**
We recommend that the Department of Human Services enforce compliance with the *Occupational Health and Safety Act* by employers and workers who persistently fail to comply.

**Occupational Health and Safety: Work Safe Alberta planning and reporting—April 2010, p. 43**
We recommend that the Department of Human Services improve its planning and reporting systems for occupational health and safety by

- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the *Work Safe Alberta Strategic Plan*
- measuring and reporting performance of occupational health and safety programs and initiatives that support key themes of the *Plan*

**Occupational Health and Safety: Inspection systems—April 2010, p. 46**
We recommend that the Department of Human Services strengthen its proactive inspection program by improving risk focus and coordinating employer selection methods for its inspection initiatives.

**Occupational Health and Safety: Certificate of Recognition—April 2010, p. 48**
We recommend that the Department of Human Services improve its systems to issue Certificates of Recognition by

- obtaining assurance on work done by Certificate of Recognition auditors
- consistently following up on recommendations made to certifying partners

**Occupational Health and Safety: Legislated permit and certificate programs—April 2010, p. 50**
We recommend that the Department of Human Services strengthen the legislated permit and certificate programs by improving

- control over issued asbestos certificates
- processes for approval and monitoring of external training agencies

**Monitoring and enforcement of training providers—October 2008, no. 24, p. 245**
We recommend that the Department of Human Services improve its monitoring of tuition-based training providers by

- assessing whether performance expectations are being met
- quantifying tuition refunds that may be owing to the Department
- implementing policies and procedures that outline steps and timelines for dealing with non-compliance problems

**Approving and renewing training programs—October 2008, p. 249**
We recommend that the Department of Human Services improve its systems for approving and renewing programs by

- clearly defining criteria for approving each program
- developing clear performance expectations for each program and training provider
- using its monitoring results to decide whether to renew a program

**Improve the use of information systems—October 2008, p. 251**
We recommend that the Department of Human Services improve the use of its information systems by

- integrating its payment processing system with other learner databases to ensure that tuition fee payments are accurate
- implementing adequate controls to ensure all key learner data is promptly updated in the system
- using exception reports to detect potential non-compliance problems

## Child and Family Services Authorities

The following recommendations are outstanding and not yet ready for follow-up audits.

**Child intervention services: Authorities compliance monitoring processes—October 2007, vol. 1, p. 86**
We recommend that the Child and Family Services Authorities improve compliance monitoring processes by providing caseworkers with

- training on file preparation and maintenance
- feedback from the monitoring results of case-file reviews

**Child intervention services: Authorities monitoring of service providers—October 2007, vol. 1, p. 88**
We recommend that the Child and Family Services Authorities improve the evaluation of service providers by coordinating monitoring activities and sharing the results with the Department.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

**Daycare and day home regulatory compliance monitoring: Improve consistency of monitoring—October 2010, p. 38**
We recommend that Child and Family Services Authorities improve systems to ensure their consistent compliance with monitoring and enforcement policies and processes.

**Daycare and day home regulatory compliance monitoring: Improve follow-up processes—October 2010, no. 3, p. 39**
We recommend that Child and Family Services Authorities improve systems for monitoring and enforcing child care program compliance with statutory requirements and standards by ensuring that all verbal warnings are adequately documented and resolved.

### Workers' Compensation Board

There are no outstanding recommendations for this entity.

## Infrastructure

### Ministry

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

**Information technology risk—October 2009, p. 287**
We recommend that the Ministry of Infrastructure develop and implement an information technology risk management framework.

### Departments of Infrastructure and Treasury Board and Enterprise

Management has identified these recommendations as implemented—to be confirmed with a follow-up audits.

**Alberta schools alternative procurement: Challenging and supporting assumptions—April 2010, no. 1, p. 22**
We recommend that the Departments of Treasury Board and Enterprise and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

**Alberta schools alternative procurement: Transparency—April 2010, no. 2, p. 24**
We recommend that the Departments of Treasury Board and Enterprise and Infrastructure follow their own guidance to publish a value for money report upon entering into a public private partnership agreement.

## Intergovernmental, International and Aboriginal Relations

### Ministry

The following recommendations are outstanding and not yet ready for follow-up audits.

**Evaluating international offices' performance—October 2008, p. 324**
We recommend that the Ministry of Intergovernmental, International and Aboriginal Relations improve the processes management uses to evaluate the performance of each international office.

**Ensuring effective information-system controls—October 2008, p. 326**
We recommend that the Ministry of Intergovernmental, International and Aboriginal Relations obtain assurance that information-system controls are effective at the international offices and that relevant Government of Alberta information technology policies and standards are being met.

## Justice

### Department

There are no outstanding recommendations for this entity.

### Office of the Public Trustee

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

**New vendor set-up—October 2010, no. 24, p. 180**
We recommend that the Office of the Public Trustee improve controls for inputting new vendors in its Public Trustee Information System.

**Recurring payments—October 2010, p. 180**
We recommend that the Office of the Public Trustee improve its controls for issuing and stopping recurring payments.

# Municipal Affairs

## Department

The following recommendations are outstanding and not yet ready for follow-up audits.

**ME first! program—October 2008, no. 37, p. 335**

We recommend that the Department of Municipal Affairs assess the effect on greenhouse gas emissions of the energy savings that resulted from the projects funded by the Department's ME first! program and that the Department report the lessons learned from this program to the Departments involved in creating climate change programs.

**Disaster recovery program—October 2009, no. 34, p. 301**

We recommend that the Department of Municipal Affairs improve its management of the disaster recovery program by:

- setting timelines for key steps that must be performed before federal government funding can be received
- periodically assessing and adjusting costs and recovery estimates based on current information

**Disaster recovery estimation methodology—November 2011, no. 18, p. 122**

We recommend that the Department of Municipal Affairs clarify its method for initially estimating disaster recovery expenses.

## Alberta Social Housing Corporation

The following recommendation is outstanding and not yet ready for a follow-up audit.

**Social housing contracting policy—November 2011, no. 17, p. 120**

We recommend that the Alberta Social Housing Corporation develop a contracting policy for capital additions to its social housing portfolio and strengthen related contract management processes.

# Seniors

## Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits.

3+ **Seniors care: Effectiveness of Seniors Lodge Program—October 2005, no. 12, p. 66**

We recommend that the Department of Seniors:

1. improve the measures it uses to assess the effectiveness of the Seniors Lodge Program
2. obtain sufficient information periodically to set the minimum disposable income of seniors used as a basis for seniors lodge rent charges

**Seniors care: Determining future needs for Alberta Seniors Lodge Program—October 2005, p. 67**

We recommend that the Department of Seniors improve its processes for identifying the increasing care needs of lodge residents and consider this information in its plans for the Seniors Lodge Program.

## Persons with Developmental Disabilities Boards

Management has identified this recommendation as implemented—to be confirmed with a follow-up audit.

**Contract monitoring and evaluation—October 2004, no. 9, p. 111**

3+ We recommend that the Persons with Developmental Disabilities Provincial Board work with the six Community Boards to strengthen the monitoring and evaluation of the performance of service providers by:

- requiring individual funding service providers to provide adequate financial reporting
- obtaining annual financial statements to evaluate the financial sustainability of critical service providers
- implementing a sustainable, risk-based internal audit plan
- developing and implementing standard procedures to be followed when Community Board staff are in contact with service providers, and
- implementing a method to evaluate service provider performance

# Service Alberta

## Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits.

**Information technology service level agreements between Service Alberta and its client ministries—October 2007, no. 32, vol. 2, p. 146**

3+ We recommend that the Ministry of Service Alberta, working with its client ministries, revise their information technology service level agreements to:

- ensure that the agreements are current
- clarify the level of services provided in each service category
- define the roles and responsibilities of each party

**Guidance to implement information technology control frameworks—April 2008, no. 7, p. 170**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and promote:

- a comprehensive information technology control framework, and accompanying implementation guidance, and
- well-designed and cost-effective information technology control processes and activities.

**Protecting information assets: Central security office—October 2008, no. 4, p. 53**[3]
To secure the Government of Alberta's information, we recommend that Service Alberta ensures that a central security office is immediately established to oversee (develop, communicate, implement, monitor and enforce) all aspects of information security for organizations using the government's shared information-technology infrastructure.

**Protecting information assets: Review and improve the Government of Alberta's shared computing infrastructure policies, procedures, and standards—October 2008, no. 6, p. 68**
We recommend that the Ministry of Service Alberta work with all ministries and through the Chief Information Officer Council, to develop and implement policies, procedures, standards, and well-designed control activities for the Government of Alberta's shared computing network.

**Protecting information assets: Wireless policies and standards—October 2008, p. 75**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, update its existing *Wireless LAN Access Security Policy* to provide clearer guidance to ministries in deploying and securing wireless-network-access points.

**Protecting information assets: Device configurations—October 2008, p. 76**
We recommend that the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, review the configuration of laptops, and approve policies to prevent laptops from inadvertently exposing the government environment.

**Protecting information assets: Ongoing monitoring and surveillance—October 2008, no. 7, p. 77**
We recommend the Ministry of Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, update network surveillance methods to detect and investigate the presence of unauthorized wireless access points within the Government of Alberta.

**Protecting information assets: Backup power supplies—October 2008, p. 85**
We recommend that the Ministry of Service Alberta, work in conjunction with all ministries and through the Chief Information Officer Council, to ensure that ministries that use data facilities ensure that connected computer equipment has a sufficient redundant power supply.

**Protecting information assets: Physical security—October 2008, no. 8, p. 87**
We recommend that the Ministry of Service Alberta work with the Ministry of Infrastructure, in conjunction with all ministries and through the Chief Information Officer Council, to improve:

- physical security controls at data facilities
- logging of access to data facilities by implementing effective controls to track access.

**Protecting information assets: Environmental security—October 2008, p. 89**
We recommend that Ministry of Service Alberta work with ministries to improve the environmental security controls at shared data facilities.

**Service Alberta's role as a central processor of transactions—October 2008, no. 38, p. 345**
We recommend that the Ministry of Service Alberta consider providing internal control assurance to its client ministries on its centralized processing of transactions.

**Access- and security-monitoring of the revenue application systems—October 2008, p. 346**
We recommend that the Ministry of Service Alberta ensure adequate logging and monitoring processes are in place in all application systems that host or support financial information and Albertans' personal information.

**System-conversion process—October 2008, p. 349**
We recommend that the Ministry of Service Alberta document its review of actual system-conversion activities to ensure that they comply with the approved test plan for system conversion and data migration.

**Information technology resumption plan—October 2009, no. 35, p. 311**
We recommend that the Ministry of Service Alberta complete and test an information technology resumption plan.

3 Recommendation originally made to Executive Council. Both entities agreed that Service Alberta would assume responsibility for implementation.

**Payroll review processes—October 2009, p. 312**
We recommend that the Ministry of Service Alberta improve its process to provide timely supporting documentation on payroll information that it maintains for itself and its client ministries.

**Protecting information assets: Web application controls—October 2010, no. 7, p. 78**
**(repeated once since October 2008)**
We again recommend that Service Alberta, in conjunction with all ministries and through the Chief Information Officer Council, develop and implement well designed and effective controls to ensure all Government of Alberta web applications consistently meet all security standards and requirements.

## Solicitor General and Public Security

### Department

There are no outstanding recommendations for this entity.

## Sustainable Resource Development

### Department

The following recommendations are outstanding and not yet ready for follow-up audits.

**Sand and gravel: Enforcement of reclamation obligations—October 2008, no. 40, p. 360**
We recommend that the Department of Sustainable Resource Development improve processes for inspecting aggregate holdings on public land and enforcing land reclamation requirements.

**Sand and gravel: Flat fee security deposit—October 2008, no. 41, p. 362**
We recommend that the Department of Sustainable Resource Development assess the sufficiency of security deposits collected under agreements to complete reclamation requirements.

**Sand and gravel: Quantity of aggregate removed—October 2008, p. 364**
We recommend that the Department of Sustainable Resource Development develop systems to verify quantities of aggregate reported as removed by industry from public lands so that all revenue due to the Crown can be assessed and recorded in the financial statements.

**Sand and gravel: Information management—October 2008, p. 366**
We recommend that the Department of Sustainable Resource Development capture and consolidate information throughout the life of an aggregate holding and use it to test compliance with legal obligations.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

**Reforestation: Monitoring and enforcement—October 2006, no. 15, vol. 1, p. 122**
We recommend that the Department of Sustainable Resource Development strengthen its monitoring of reforestation activities by

- bringing more rigour to the review of forestry operator plans
- making its field inspection program more effective
- promptly identifying and correcting non-compliance with legislation

**Controls over revenue—October 2008, no. 39, p. 355**
We recommend that the Department of Sustainable Resource Development put processes in place to allow significant revenues currently recorded when cash is received to be recorded when revenue is due to the Crown.

**Reforestation: Performance information—April 2009, no. 2, p. 52**
**(repeated once since October 2006)**
We again recommend that the Department of Sustainable Resource Development publicly report relevant and sufficient reforestation performance information to confirm the effectiveness of its regulatory systems.

### Natural Resources Conservation Board

The following recommendations are outstanding and not yet ready for follow-up audits.

**Compliance and enforcement (Confined feeding operations)—October 2007, #34, vol. 2, p. 167**
**(repeated once since October 2004)**
We again recommend that the Natural Resources Conservation Board rank its compliance and enforcement activities based on risk. To do so, the Board must

- Define through research the environmental risks applicable to CFOs and their impact
- Categorize CFOs by priority levels of environmental risk at different locations
- Conduct appropriate sampling and testing to confirm the validity of assigned risk levels
- Select and deliver appropriate compliance and enforcement action

**Surface water risks—April 2011, no. 2, p. 59**
We recommend that the Natural Resources Conservation Board demonstrate that its compliance approach is adequate in proactively managing surface water risks.

## Tourism, Parks and Recreation

### Ministry and Culture and Community Services

The following recommendation is outstanding and not yet ready for a follow-up audit.

**Computer control environment—October 2007, vol. 2, p. 172**
We recommend that the Ministry of Tourism, Parks, Recreation and Culture and Community Services work with Service Alberta to:

- document the services that Service Alberta is to provide and its control environment for information technology
- implement a process to ensure that Service Alberta consistently meets service level and security requirements
- provide evidence that control activities maintained by Service Alberta are operating effectively

## Transportation

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits.

**Commercial vehicle safety: Inspection tools and vehicle selection—October 2009, p. 124**
We recommend that the Department of Transportation improve its inspection capability by incorporating risk analysis into the selection of vehicles for roadside inspection and increasing the amount of information available at roadside.

**Commercial vehicle safety: Progressive sanctions—October 2009, no. 14, p. 127**
We recommend that the Department of Transportation strengthen enforcement processes relating to, or arising from, roadside inspections.

**Commercial vehicle safety: Analysis and measurement—October 2009, no. 15, p. 129**
We recommend that the Department of Transportation further develop and improve its data analysis practices for use in program delivery and performance measure reporting.

**Improve processes to value donated assets in the Department financial statements—October 2010, p. 197**
We recommend that the Department of Transportation:

- enter into agreements with donors that:
  - provide the Department of Transportation with assurance on the fair value of the donated assets
  - specify whether donation receipts will be issued
- document its support for the valuation reported in its financial statements, including the procedures performed, assumptions made and source documents reviewed.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits.

3+ **Commercial and motor vehicle inspection programs—October 2004, no. 29, p. 301**
We recommend that the Ministry of Transportation strengthen its monitoring processes for Commercial Vehicle Inspection Program and Motor Vehicle Inspection Program by:

- documenting policies, procedures and management's expectations of the vehicle safety investigators to ensure that they perform their functions appropriately and consistently
- developing a reporting process to allow senior management to enhance the assessment of the effectiveness of the programs.

**Information technology risk assessment—October 2009, p. 329**
We recommend that the Department of Transportation develop and implement an information technology risk assessment framework.

## Treasury Board and Enterprise

### Ministry and Department

The following recommendations are outstanding and not yet ready for follow-up audits.

1–3 **Government credit cards—October 2007, no. 17, vol. 1, p. 174**
We recommend that the Department of Treasury Board and Enterprise, working with all other departments, further
3+ improve controls for the use of government credit cards by:

1. communicating responsibilities to all cardholders
2. clarifying the support required to confirm both the nature and purpose of transactions
3. providing guidance to senior financial officers and accounting staff on dealing with significant non-compliance

**Inconsistent budgeting and accounting for grants—October 2007, vol. 2, p. 178**
We recommend that the Ministry of Treasury Board and Enterprise, working with other departments, provide guidance to ensure consistent accounting treatment of grants throughout government.

**Chief executive officer compensation disclosure—October 2008, no. 3, p. 32**
We recommend that the Treasury Board and Enterprise consider applying the new private-sector compensation-disclosure requirement to the Alberta public sector.

**Salary and benefits disclosure—October 2008, p. 371**
We recommend that the Ministry of Treasury Board and Enterprise, through the *Salaries and Benefits Disclosure Directive*, clarify what form of disclosure, under what circumstances, is required of the salary and benefits of an individual in an organization's senior decision making/management group who is compensated directly by a third party.

**Public agencies: Disclosure of termination benefits paid—October 2009, no. 2, p. 29**
We recommend that the Ministry of Treasury Board and Enterprise increase transparency of termination benefits by adopting disclosure practices for Alberta public agencies that disclose termination benefits paid.

3+ **Infrastructure needs: Deferred maintenance—October 2010, no. 8, p. 89**
**(repeated once since October 2007)**
We again recommend that the Department of Treasury Board and Enterprise, in consultation with departments, develop objectives, timelines and targets for reducing deferred maintenance, and include information on deferred maintenance in the province's *Capital Plan*.

3+ **Infrastructure needs: Maintaining assets over their life—October 2010, no. 9, p. 92**
**(repeated once since October 2007)**
We again recommend that the Department of Treasury Board and Enterprise establish a process that enables public infrastructure assets to be properly maintained over their life.

**Improving processes to select performance measures—November 2011, no. 3, p. 57**
We recommend the Department of Treasury Board and Enterprise work with other ministries to improve processes for selecting measures for public reporting, including the sample to be reviewed by the Auditor General.

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

3+ **Infrastructure needs: Process to prioritize projects—October 2007, no. 4, vol. 1, p. 57**
We recommend that the Department of Treasury Board and Enterprise improve the process to evaluate proposed infrastructure projects that ministries submit.

3+ **Infrastructure needs: Improving current information—October 2007, no. 5, vol. 1, p. 59**
We recommend that the Department of Treasury Board and Enterprise, working with the Treasury Capital Planning Committee, examine how the current information provided to Treasury Board and Enterprise can be improved.

**Report on selected payments to Members of the Legislative Assembly—Efficiency—October 2008, p. 376**
We recommend that the Department of Treasury Board and Enterprise use current technology to regularly and efficiently compile the material for public reporting.

**Report on selected payments to Members of the Legislative Assembly: Timely—October 2008, p. 377**
We recommend that the President of Treasury Board and Enterprise arrange for all final reviews of the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* to take place within six months of the year end so that the *Report* can be ready for tabling in the Legislative Assembly.

## Departments of Treasury Board and Enterprise and Infrastructure

Management has identified these recommendations as implemented—to be confirmed with follow-up audits

**Alberta schools alternative procurement: Challenging and supporting assumptions—April 2010, no. 1, p. 22**
We recommend that the Departments of Treasury Board and Enterprise and Infrastructure improve processes, including sensitivity analysis, to challenge and support maintenance costs and risk valuations.

**Alberta schools alternative procurement: Transparency—April 2010, no. 2, p. 24**
We recommend that the Departments of Treasury Board and Enterprise and Infrastructure follow their own guidance to publish a value for money report upon entering into a public private partnership agreement.

## Agency Governance Secretariat

The following recommendations are outstanding and not yet ready for follow-up audits.

**Chief executive officer: Guidance—October 2008, no. 1, p. 27**
We recommend that the Deputy Minister of Executive Council through the Agency Governance Secretariat assist agencies and departments by providing guidance in the areas of chief executive officer selection, evaluation and compensation.

**Chief executive officer: Accountability—October 2008, no. 2, p. 29**
We recommend the Agency Governance Secretariat, on behalf of ministers, annually obtain information from agencies on chief executive officer evaluation and compensation processes to assess if good practices are being consistently followed. The results of these systems assessments should be reported to ministers who should then hold boards of directors accountable for their decisions.

**Public agencies: Executive compensation practices—October 2009, no. 1, p. 23**
We recommend that the Deputy Minister of Executive Council, through the Agency Governance Secretariat, assist public agencies and departments by providing guidance on executive compensation practices for all public agency senior executives.

AUDITOR GENERAL
*Alberta*

# Reference

Report of the Auditor General of Alberta—November 2011

# Glossary

| | |
|---|---|
| **Accountability** | In governance, the responsibility of an organization (government, ministry, department or other entity) to<br>• report results (what they spent, and what they achieved)<br>• compare results with plans, budgets or goals<br>• explain any difference between the actual and expected results<br><br>Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals) and what it actually does (results). |
| **Accrual basis of accounting** | A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred. |
| **Adverse auditor's opinion** | An auditor's opinion that things audited do not meet the criteria that apply to them. |
| **Assurance** | An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgement and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive. |
| **Attest work, attest audit** | Work an auditor does to express an opinion on the reliability of financial statements. |
| **Audit** | An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices. |
| **Auditor** | A person who examines systems and financial information. |
| **Auditor's opinion** | An auditor's written opinion on whether things audited meet the criteria that apply to them. |
| **Auditor's report** | An auditor's written communication on the results of an audit. |
| **Business case** | An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives. The province has issued business case usage guidelines and a business case template that departments can refer to in establishing business case policy. |
| **Capital asset** | A long term asset. |
| **COBIT** | Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs and performance measurement requirements. |
| **Criteria** | Reasonable and attainable standards of performance that auditors use to assess systems or information. |
| **Cross-ministry** | The section of this report covering systems and problems that affect several ministries or the whole government. |
| **Crown** | Government of Alberta. |
| **Deferred contributions** | See "Restricted contributions." |

## Glossary

**Deferred maintenance** — Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

**Enterprise risk management (ERM)** — The systems and processes organizations use to identify and manage risks within an organization so they can achieve their goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

**Enterprise resource planning (ERP)** — Abbreviation for enterprise resource planning. ERPs integrate and automate all data and processes of an organization into one comprehensive system. ERPs may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERPs achieve integration by running modules on standardized computer hardware with centralized databases used by all modules.

**Exception** — Something that does not meet the criteria it should meet—see "Auditor's opinion."

**Expense** — The cost of a thing over a specific time.

**IFRS** — International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

**GAAP** — Abbreviation for "generally accepted accounting principles," which are established by the Canadian Institute of Chartered Accountants. GAAP are criteria for financial reporting.

**Governance** — A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures effective use of public resources.

**Government business enterprise** — A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

**Internal audit** — A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies, internal control systems, compliance with policies, procedures, and legislation, economical and efficient use of resources and effectiveness of operations.

**Internal control** — A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

**Management letter** — Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

| | |
|---|---|
| **Material, materiality** | Something important to decision makers |
| **Misstatement** | A misrepresentation of financial information due to mistake, fraud or other irregularities |
| **Outcomes** | The results an organization tries to achieve based on its goals |
| **Outputs** | The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many." |
| **Performance measure** | Indicator of progress in achieving a goal |
| **Performance reporting** | Reporting on financial and non-financial performance compared with plans |
| **Performance target** | The expected result for a performance measure |
| **PSAB** | Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards |
| **PSAS** | Abbreviation for public sector accounting standards, which are applicable to federal, provincial, territorial and local governments |
| **Qualified auditor's opinion** | An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification |
| **Recommendation** | A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans |
| **Restricted contributions** | Canadian accounting standards for not-for-profit organizations require externally restricted contributions to be accounted for by reporting the value of contributions as liabilities until the stipulations are met, after which they are recognized as revenue. Externally restricted contributions for which the stipulations have not been met are called "deferred contributions." The purpose of this accounting is to provide readers of the financial statements with useful information about how management has used resources provided to them and whether or not they have complied with stipulations imposed by donors. |
| **Review** | Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria. |
| **Risk** | Anything that impairs an organization's ability to achieve its goals |
| **Risk management** | Identifying and then minimizing or eliminating risk and its effects |
| **Sample** | A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgemental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgement of risk, nature of the items in the population and the specific audit objectives for which sampling is being used. |
| **Standards for systems audits** | Systems audits are conducted in accordance with the assurance and value for money auditing standards established by the Canadian Institute of Chartered Accountants. |
| **Systems (management)** | A set of interrelated management control processes designed to achieve goals economically and efficiently |

**Systems (accounting)** A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

**Systems audit** To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

Paragraphs (d) and (e) of subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with; or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Canadian Institute of Chartered Accountants.

First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to them. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation.

A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

**Unqualified auditor's opinion** An auditor's opinion that things audited meet the criteria that apply to them.

**Unqualified review engagement report** Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

**Value for money** The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime or farm incomes. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.

**Other resources**

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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